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Politics this week

Apr 12th 2006
From The Economist print edition

Reuters

Italy's election produced a photo-finish, with the centre-left coalition under Romano Prodi narrowly scraping a majority in both houses of the Italian parliament. But the outgoing prime minister, Silvio Berlusconi, refused to concede defeat, promising to make Mr Prodi's task of forming a government even harder. See article

After years of fruitless pursuit, the Italian authorities finally caught up with and arrested Bernardo Provenzano, the long-time reputed head of the **Mafia** in Sicily. See article

The **French government** withdrew its planned new job contract for the young after several weeks of protest. The cave-in is a political embarrassment for President Jacques Chirac and his prime minister, Dominique de Villepin, and it also promises to put off any idea of other reforms for some time to come. See article

Matthias Platzeck resigned as chairman of **Germany's Social Democratic Party** on grounds of ill health. The new chairman of the party, which has lost members and its way, is Kurt Beck, premier of Rhineland-Palatinate.

A Spanish judge charged 29 people suspected of involvement in the **Madrid train bombings** in March 2004. Most of the suspects are Moroccan nationals.

Popular populists

Ollanta Humala, a nationalist former army officer, won **Peru's** presidential election, with little more than 30% of the vote. He faces a run-off ballot, almost certainly against Alan García, a populist former president. See article

The last contingent of 1,765 members of **Colombia's** right-wing paramilitaries handed in their arms under a peace process that has seen more than 30,000 demobilise. Critics claim they have not yet dismantled their criminal and drug-trafficking networks.

Eight men were found dead on a farm in south-western Ontario in what appeared to be a resurgence of a battle among **Canada's** biker gangs for control of the drug trade.

Birthday bombing

Reuters

Scores of people, most of them Sunni Muslims, were killed by a huge bomb blast in Karachi, in southern **Pakistan**, as they gathered to mark the anniversary of the Prophet Muhammad's birth.

Five **Sri Lankan** soldiers and two civilians were killed in a mine attack in the northern Jaffna peninsula. The Tamil Tigers and the government are supposed to be observing a ceasefire.

Australia's foreign minister, Alexander Downer, was questioned by an inquiry investigating allegations that illegal payments were made to Iraq by the Australian wheat board in defiance of sanctions against Saddam Hussein's regime. John Howard, the prime minister, was expected to follow him.

On the eve of Hu Jintao's first trip to Washington, DC, monthly **Chinese** trade figures recorded a sharp increase in China's surplus. The Chinese president is sure to face strong calls during his visit for a further revaluation of the yuan. See article

In the nuclear club

Presented by nEo

Iran announced that it had managed to produce low-enriched uranium from its first 164-machine cascade of centrifuges at its pilot enrichment plant at Natanz. Although it claims its activities at Natanz are for civilian purposes, they are in defiance of requests by the UN Security Council to halt all such work. America, which had earlier dismissed reports that it was planning attacks on Iranian nuclear facilities with tactical nuclear weapons as "wild speculation", said Iran was "moving in the wrong direction". So did Russia. See article

At least 90 people were killed and 120 injured when suicide-bombers attacked a Shia mosque in the **Iraqi** city of Musayib. It was the worst attack of the year so far. Politicians in the government reiterated that the country was not entering into a civil war.

The Israeli cabinet officially signalled the end of **Ariel Sharon's** tenure as prime minister by declaring him "permanently incapacitated" a little over three months after a stroke that left him in a coma. Ehud Olmert officially becomes prime minister, but has yet to form a new government after last month's election.

Israeli shelling of **Gaza** killed at least two children as well as several of its intended targets, the militants responsible for daily rocket attacks across the border. Meanwhile, the EU suspended all direct aid to the Hamas-led Palestinian Authority. This is nearly half of the €500m ($600m) a year that the EU sends to the Palestinian territories.

The latest round of talks between rebel groups from the **Darfur** region of Sudan and the Sudanese government, hosted by the Nigerian president, Olusegun Obasanjo, collapsed. Negotiations to end the conflict in Darfur have been proceeding for two years, but the African Union wants a final conclusion to talks by the end of April. See article

At least 120 people are thought to have drowned after a passenger boat capsized on Lake Volta in **Ghana**. Last week, a boat overloaded with passengers capsized off the coast of **Djibouti**, killing 73. The incidents are the latest in a spate of passenger-boat disasters in African countries.

Not going to go away

Getty Images

Hundreds of thousands of people demonstrated in cities across the United States in support of **illegal immigrants** and against any potential congressional legislation that would criminalise them. The biggest rally, in Dallas, attracted 350,000 protesters. Earlier, a Senate bill more in line with George Bush's position, which allows illegal immigrants to apply for residency, stalled because of partisan bickering over amendments. See article

Another political row broke out over presidential powers when it emerged (through documents filed in the prosecution of Dick Cheney's former chief of staff, Lewis "Scooter" Libby) that Mr Bush **declassified intelligence** on Iraq in 2003 to counter critics of the war. Democrats asked for more details; Republicans said Mr Bush had not done anything wrong.

Early voting began in the **New Orleans** mayoral election, which takes place on April 22nd. Polling stations have been set up across Louisiana to allow evacuees from Hurricane Katrina who don't trust the postal system to return briefly to cast their ballot. See article

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Business this week

Apr 12th 2006
From The Economist print edition

BAE Systems confirmed it had started talks to sell its 20% stake in **Airbus** to **EADS** (which owns the other 80%). The news marks the end of BAE's involvement with the project, which it joined in 1979. The proceeds of a sale, estimated at up to $8 billion, will probably be used to increase its presence in America's defence industry, where the company is already a big supplier to the Pentagon. See article

In the latest Vioxx court case, a jury in New Jersey awarded $9m in punitive damages to a man who claimed the painkiller had caused his heart attack. The decision was a blow to **Merck** because under New Jersey law the jury could make the award only if it believed the plaintiff's case that the firm had withheld data on the risk from Vioxx.

Serono's share price plunged after the Swiss-based biotechnology group said it is “terminating discussions” over a possible sale as it had received only inadequate offers. Several large drug companies have been mentioned as possible suitors for the firm over the past few months.

Where there's a will

NASDAQ revealed it had become the biggest shareholder in the **London Stock Exchange**. It took a 15% stake for £448m ($780m), the bulk of which was sold by Threadneedle Asset Management. Two weeks ago, NASDAQ dropped a takeover offer that the LSE's board rejected as too low, but which pricked the interest of its institutional investors.

The Federal Deposit Insurance Corporation held an unprecedented hearing into **Wal-Mart's** application to open a bank. The company insists it does not want to move into retail banking, but could save money by processing transactions through a state industrial bank (to be based in Utah). Opponents, from the banking sector and community groups, predicted that Wal-Mart will expand its plan, leading to the closure of independent banks serving rural markets.

The **Enron** trial in Houston saw Jeffrey Skilling, the firm's chief executive for six months in 2001, take the stand. He has pleaded not guilty of the fraud that led to the energy-trader's collapse.

The chairman of **Hyundai Motor**, Chung Mong-koo, apologised to South Koreans for becoming embroiled in a series of scandals involving political lobbying and slush funds. Prosecutors are to question Mr Chung and his son, who is the president of Kia, a Hyundai affiliate, over the allegations.

Compass, the world's biggest food-services company, sold its travel-catering business. In a deal totalling £1.8 billion ($3.2 billion), a private-equity firm controlled by Sweden's Wallenberg family will buy the firm's railway and airport concessions, and Australia's Macquarie Bank will buy its Moto motorway-service business in Britain. Compass will use some of the cash to complete its takeover of Levy Restaurants, an American counterpart that operates in large venues, such as Dodger Stadium in Los Angeles.

Watch and learn

In the latest internet initiative by a traditional media company, **Disney** announced a two-month experiment that allows viewers freely to download popular series, such as “Desperate Housewives”, from its ABC website. Networks usually charge a fee to download programmes, but Disney's plan relies on advertising revenue (viewers will not be able to fast-forward through commercials).

Samsung Electronics and **Sony** are expanding their joint venture in LCD flat-screens and will invest $2 billion in a factory in South Korea, just as other manufacturers are increasing their capacity. Analysts predict a further decline in the price of big-screen TVs, but **LG.Philips**, the world's biggest maker of large LCD panels, said the drop in prices had hurt its profits, which fell in the first quarter by 85% from the last quarter of 2005.

The **International Air Transport Association** reached an agreement with Chinese authorities to open a new route that shaves half an hour from the flying time between China and Europe. Airlines have been pushing the country to ease restrictions on its airspace, of which only 30% is available for civil aviation.

The World Trade Organisation reported that **exports** in goods increased by 6% in 2005 (in real terms) and estimated they would rise by 7% in 2006. The surge in the price of oil and metals helped the share of fuels and mining products to reach 16% of global trade last year, its highest for 20 years.

Yellow fever

The price of **gold** rose above $600 a troy ounce on April 11th for the first time since December 1980 before falling back. Investors looking for higher-yielding assets have helped raise the price of gold by over 40% in the past year. See article

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Israel and Palestine

Jerusalem: the key to peace

Apr 12th 2006
From The Economist print edition

Israel is partitioning the self-declared capital that it "reunited" in 1967

Getty Images

CITIES with walls in their hearts are never happy places. Jerusalem is again becoming one of these. From the war of 1948 till the war of 1967, the armistice line between Israel and Jordan ran through Jerusalem, dividing the Jewish west from the Arab east. After capturing Jerusalem in 1967, Israel said the reunited city would be its eternal capital. Now the concrete and barbed wire are back. Before long, the "security barrier" Israel is building in and round the occupied West Bank will bisect its own capital. But as our special report explains, the new wall does not follow the old border: it swallows into Israel both the new Jewish suburbs Israel built in east Jerusalem after 1967 and most of the Arab city. When the wall is finished, and if its gates are closed, Arab Jerusalem will then be cut off from its hinterland in the West Bank.

Jerusalem is both a problem in its own right and a parable for the wider conflict. It is a problem in its own right because Arabs and Jews have found no way either to share or divide it. In Jerusalem God and history have made sharing bitterly hard. This is a city in which religions as well as nationalisms collide. The Temple Mount, which Jews call their holiest place, is the very same place Muslims call the Noble Sanctuary, from which Muhammad ascended by a golden ladder to heaven. And although the world has invented a multitude of peace plans, none has stuck. The United Nations' stillborn partition plan of 1947 said the city should be internationalised. But in 1948 Israel and Jordan preferred to keep the parts they grabbed in war. Just over five years ago, Bill Clinton sketched out in his "parameters" a plan to divide the city. Instead came a new sort of war, in the shape of the Palestinian *intifada*.

The problem

There will be no peace in Palestine until the problem of Jerusalem is solved. Together with the fate of the Palestinian refugees of 1948, it is rightly called the heart of the conflict. But it is a heart shared by conjoined twins. Both Israel and Palestine say that they cannot live without it. So any operation designed to separate Israel from the Palestinians must be exceptionally sensitive and delicate. Worse, it must be performed from the outset in the knowledge that complete separation is out of the question. In Jerusalem at least, Israel and Palestine are doomed to remain perpetually entwined.

In the nearly 40 years since 1967, sensitivity and delicacy have not been Israel's watchwords in Jerusalem. As it happens, most orthodox Jews subscribe to a dogma that forbids Jewish access to the Temple Mount until the day of redemption. This has helped Israel leave the running of the Noble Sanctuary and its mosques in Muslim hands. But in Jerusalem as a whole Israel's policy has been to entrench its control and create facts that cannot be reversed. This has entailed reshaping the physical and demographic geography of the city, settling Jews on the Arab side of the pre-1967 border and creating vast Jewish neighbourhoods to the north, east and south.

On one level, the policy has worked. The huge physical changes render it impossible to redivide the city along the pre-1967 boundary. But on many other levels, the policy has failed. The rest of the world, including the United

Nations and the United States, says still that Israel's annexation of the city, and the settling of Jews across the old border, are illegal. Moreover, in spite of sometimes ruthless Israeli efforts to turf Arabs out of their homes, demography has defied expectations. Jews have formed a majority in Jerusalem since the late 19th century. Since 1967, however, this has declined, from 74% of the reunited city in 1967 to about 67%. And for all Israel's declarations, the city has never been “reunited” in spirit. Its Palestinian residents refuse to vote in municipal elections and insist on their future as part of an independent Palestine.

The parable

Jerusalem is a microcosm. Israel has settled Jews in much of the West Bank, but these settlements are illegal too. As in Jerusalem, demography has undone the dream of a Greater Israel. Israel's incoming government acknowledges that it must fall back to shorter borders and let an independent Palestine arise behind it. But, as in Jerusalem, the old pre-1967 border has been largely erased. And the chances of negotiating a new one, now that the obdurate Islamists of Hamas have replaced the impossible Yasser Arafat, are remote. Hence the appeal of the big idea that Israelis have come to see as the next-best thing: unilateral withdrawal to borders of their own choosing. In essence, this entails building a security barrier to keep out suicide bombers, evacuating the settlements on the far side of the barrier, hunkering down and hoping for the best.

As a second-best, unilateralism has merits. By going it alone, Israel left Gaza. If Israel now evacuates more Jewish settlements in the West Bank, so much better for the prospects of an eventual Palestinian state. But even if it is better than nothing, this is no substitute for a negotiated peace.

Again, Jerusalem shows why. Israel's barrier is not just for security. It is also a land grab: an attempt to map out preferred borders. That is why, in the case of Jerusalem, the barrier ignores demography and swallows up east Jerusalem. This follows the annexation border but traps on the Israeli side hundreds of thousands of Palestinians who will be cut off from their brethren in the West Bank and may well be tempted in any new *intifada* to help or become suicide bombers.

Israel does not bear sole responsibility for the current impasse. The crazy human geography of Jerusalem and the West Bank has been created by more than half a century of missed opportunities on both sides, in which the Arab refusal to come to terms with Jewish statehood has played its part. Historians will argue uselessly till the end of days over which side deserves more blame. What is clear is that by redividing Jerusalem in the way it is about to, Israel is making things worse. No peace is possible unless the city remains accessible, from both its east and west. At the very least, during this period of relative calm, Israel must keep its barrier as open as possible. Sealing in and cutting off the Palestinians of Jerusalem will only make another descent into violence more likely.

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After Italy's election and France's cave-in

Another great week for Europe

Apr 12th 2006
From The Economist print edition

Things must get more hellish in Italy and France before they stand any chance of getting better

Getty Images

THEY are two seemingly unconnected events, but they yield a common, depressing conclusion. The events were the decision by France's government to tear up its controversial law creating a more flexible job contract for the young, and the razor-edge outcome of Italy's rancorous election. The conclusion: the core countries of Europe are not ready to make the economic reforms they so desperately need—and that change, alas, will come only after a diabolic economic crisis.

Italy's dramatic election has grabbed the headlines, after the centre-left opposition under Romano Prodi was deemed the winner by the narrowest conceivable margin (see article). Mr Prodi has declared bravely that he will form a government, but it seems sure to be a hobbled creature dependent on the support of a rabble of far-left parties. His discomfort owes much to a final poisoned gift from the outgoing centre-right government under Silvio Berlusconi: an electoral system that restored proportional representation, imposed with the aim of recreating Italy's unstable politics of the past. But it must also be conceded that Mr Berlusconi did better than expected. For all his faults, he remains popular with many voters.

That he lost, just, to the uncharismatic Mr Prodi must largely reflect growing dissatisfaction with the sluggish Italian economy. Many voters backed Mr Berlusconi in 2001 because they believed his promises to reform Italy and get its economy moving again. They deserted him this time because he so abjectly failed to deliver on those promises. Yet enthusiasm for the alternative was deafening by its absence. Mr Prodi understands the need for change in Italy. But he is no free-market liberal, and his 13-strong coalition includes two unreformed Communist parties that are viscerally opposed to economic reforms. Under their influence, an early pledge by the centre-left is to overturn parts of the centre-right's “Biagi” law, which has permitted a boom in temporary and part-time jobs.

It was an attempt to create a similarly flexible contract for the young that has just failed in France (see article). Dominique de Villepin, the prime minister, had come to accept that a main cause of France's high unemployment, especially among the young, is an overly regulated labour market, with a high minimum wage and fierce restrictions on firing people. But he also knew that a vocal opposition would hold up his attempts to change any of these rules. Hence his decision to push through the new contract not after full consultation but by decree, in the hope of facing down subsequent resistance.

In hindsight, Mr de Villepin made two big mistakes. The first was to reckon without the power of the street. Recent history is littered with examples of French governments that have backed off reforms in the face of large-scale protests. Mr de Villepin's surrender can now be added to the list. His second mistake was to count on the full support of his president, Jacques Chirac. Yet after 11 years in office Mr Chirac has shown beyond a doubt that he is a weak president who has no grasp of the urgency of reform. There is now no chance of change in France before next spring's presidential election.

At first glance, the prospects for reform seem brighter in the third big member of the euro zone, Germany. Growth

has resumed, business has recovered its zip, unemployment is falling and Angela Merkel has made a good start as the Christian Democratic chancellor of a “grand coalition” with the Social Democrats. Yet, as in Italy and France, the split result of Germany's election last September revealed that there was only a limited constituency for reform. Ms Merkel's government may be able to put right the public finances—but it shows little sign of readiness to embark on deeper liberalising measures.

In search of a crisis

The sad truth in all three countries is that their voters are not yet ready to swallow the nasty medicine of change. Reform is always painful. And all three have too many cosseted insiders—those with secure jobs, those in the public sector—who see little to gain and much to lose. They are ready to fight against change even though it would help outsiders—the young, the unemployed—and, ultimately, their economies.

Does that mean that Europe, especially the euro area, is unreformable? It is fashionable to answer yes, and to conclude that the continent's destiny is one of gradual decline into a genteel poverty, as populations age and economies lose their last remaining vestiges of dynamism. Yet that is surely too gloomy. In the right circumstances, and with a braver political leadership, even the three core members of the euro should be able to change their ways.

One reason for believing that reform can happen, even in Italy and France, is that so many other European countries have shown the way. Britain faced economic and social meltdown in 1979; there followed a decade of Thatcherite reform. Admittedly, Britain is not in the euro, but the Netherlands is. That country had an acute case of what became known as the “Dutch disease” in 1982; a string of reforms were then made that led, a decade later, to talk of a Dutch miracle. Another small country now in the euro, Ireland, almost fell off the cliff into poverty and bankruptcy in 1987; yet, after some years of painful change, it had transformed itself into the “Celtic Tiger”. Similarly, Finland became an economic basket-case in 1990; it then implemented reforms that have today helped to make it on some assessments the world's most competitive economy, ahead even of the (far bigger) United States.

Two things came together to make radical reform possible in these countries. The first was wide agreement, among voters, businessmen, trade unions and others that there was a grave economic crisis. The second were determined political leaders prepared to risk unpopularity. The real problem, not just for Italy and France but also for Germany, is that, so far, life has continued to be too good for too many people: there is not yet a general consensus that their economies are in serious trouble. All three have also lacked brave political leaders ready to leap in and explain the case for reform. There is one depressingly certain way to remedy the failings in the core European countries: to bring on a more serious economic crisis. This week will surely have brought that a lot closer.

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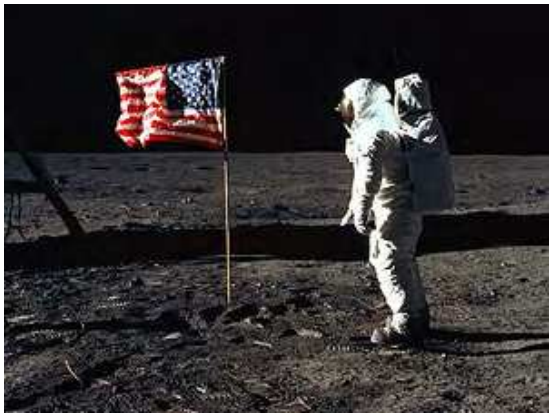
Space

Back to the future

Apr 12th 2006
From The Economist print edition

Don't race China to the moon, especially if you have been there already

NASA



Get article background

JUST before China's president, Hu Jintao, visits the United States, a new front has opened up in the growing rivalry between today's superpower and tomorrow's aspiring one. Not content with bashing China over trade, jobs and its military build-up, several Republican congressmen are worried that the Chinese may try to get to the moon before America does. In apparent seriousness, they fear that America is caught up in a new space race—and that it is losing.

The facts, as laid out last week to a congressional hearing for NASA (itself a lunar veteran), are that China has put two manned vehicles into orbit, is planning a third by 2008, and would like a space laboratory. The politicians were alarmed by China's scheme to visit the moon in 2017—and they want America to spend up to $5 billion to get there first.

The Americans are certainly right to keep a close eye on what China is up to in space—especially when it comes to military programmes. But the idea that there is a new space race to get to the moon is ludicrous—and not just because Neil Armstrong won that competition in 1969. Look at the details: the Chinese, it turns out, are sending the moon a robot, not a taikonaut. And why on earth (or in heaven) would America want to send people back to the moon anyway?

The reason—and this will come as no surprise to aficionados of China bashing—is a powerful domestic lobby. Racing a Chinese robot to the Sea of Tranquility might be batty, but it is a neat way to milk additional funds for NASA from the American public. You might wonder how Tom DeLay, the ousted majority leader, could warn his colleagues with a straight face that “the advanced state of the Chinese space programme represents a 21st century Sputnik moment.” But his logic becomes much clearer when you realise that NASA is a big employer in his Texas district.

Over the years, America's politicians have injected the country's space programme with so much spin, politics and greed that it is now bloated beyond belief. The price of launching a single American shuttle would run the entire Chinese space programme for a year, paying for the work of all its 200,000 scientists and engineers.

Strong arm

More than money is at stake, however. The idea of a space race with a huge communist country dredges up memories of the 1960s—which is precisely why it appeals to some conservatives in Congress. But even in those difficult times, Jack Kennedy had started to think that co-operation with the Soviet Union in civilian space

programmes might be a better idea. China should be encouraged to participate in the International Space Station. If the mission to the moon is supposed to be multinational, then the Chinese should be involved in that, too. When governments compete for glory in space, the winners are the contractors and the losers are the taxpayers.

The irony is that the fuss in Congress comes at a time when the real race in space has moved to the private sector. At present, four companies have said they will build sub-orbital vehicles for space tourism. Elon Musk, who made his fortune with PayPal, an online payments system, is trying to shake up the satellite-launching business (and perhaps also the orbital-transport business) with his cheap—but not-quite-working—rocket, *Falcon 1*. Those are the kind of space races that benefit us all. Long may they continue.

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Northern Ireland

The way back to Stormont

Apr 12th 2006
From The Economist print edition

Tony Blair and Bertie Ahern must hold their nerve if power-sharing is to stand a chance

AFP

DEDICATED followers of the Northern Ireland peace process could be forgiven a certain scepticism. Eight years after the Good Friday Agreement that set it on its stumbling way, some of the landmarks look depressingly familiar. Northern Ireland's devolved government is still suspended. Britain and Ireland are once again nudging recalcitrant political parties into some sort of agreement. Another deadline looks likely to be bent or missed. And the brutal murder of an IRA man turned British spy is an unsettling reminder of bitter history.

But this time, maybe, things could be different. The new proposal from Tony Blair and Bertie Ahern, the prime ministers of Britain and Ireland, is harder-edged than usual. On May 15th, the dust sheets will be whipped off Northern Ireland's Assembly, which was shut down in 2002. Legislators will be given just over six months to set up a functioning cross-party executive. If they don't, the Stormont Assembly will be closed down indefinitely and their pay cheques stopped. Britain and Ireland will continue to rule directly, this time attempting a “step-change” toward greater north-south co-operation.

Does it matter much if Northern Ireland's politics remain suspended? Although segregation seems to be getting a bit more entrenched (see article) the current stalemate is at least largely peaceful. Neither main party appears to feel compelled to change things. Sinn Fein, the IRA's political wing, is the keener of the two, because it could improve its image through a successful spell of power-sharing. But (Catholic) nationalists are doing pretty well in Northern Ireland as things are, and they have no desire to see their *bête noire*, the Reverend Ian Paisley of the Democratic Unionist Party (DUP), as First Minister. The (Protestant) unionists should have more to gain than nationalists from a deal, for time and demography are against them: theirs is a shrinking and demoralised population, while Catholics have seen their job prospects and children's reading scores alike improve. Yet unionists regard power-sharing as a dangerous half-way house en route to reunification.

The parties' ambivalence, though, is beside the point. A resumption of power-sharing is important because Northern Ireland needs to get used to resolving its differences through politics rather than violence. Wounds do not heal through the passage of time alone. People need to work together at a common project across the sectarian divide. That's why the Blair-Ahern proposal deserves support.

Threatening to stop salaries is a good way to concentrate minds. The Assembly has cost almost £80m ($139m) to run since it was closed three and a half years ago. Money is one of Britain's few ways of influencing events, and local politicians have been mollycoddled enough in order to keep the peace process going. The proposal for more north-south co-operation should put the frighteners on Mr Paisley's DUP, because it implies that Dublin will have more say in Northern Ireland in the future. And the squeeze that the police north and south of the border have been applying to IRA-associated crime should help Sinn Fein encourage the former paramilitaries to embrace respectability more wholeheartedly.

What needs to happen now? The Independent Monitoring Commission, which keeps tabs on IRA weapons and activities, must produce a series of reports showing that the erstwhile hitmen are fairly clean and improving. The March report was better than February's, and some expect April's to follow suit. Sinn Fein must agree to support policing; legislation to make that more palatable by devolving security powers is likely this summer. Then the DUP must decide to shake hands.

In the past, Mr Blair has been either limp-wristed or brilliantly pragmatic in, for example, letting Sinn Fein share power before the IRA ditched its weapons. Peter Hain, his Northern Ireland secretary, has recently said soothingly that, if talks fail, any “step-change” would be mild and economic. Such flexible language is ominous. The conditions for getting Northern Ireland's politics going again are in place. The time for giving way has gone.

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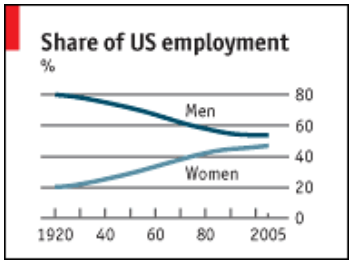
Women in the workforce

The importance of sex

Apr 12th 2006
From The Economist print edition

Forget China, India and the internet: economic growth is driven by women



EVEN today in the modern, developed world, surveys show that parents still prefer to have a boy rather than a girl. One longstanding reason why boys have been seen as a greater blessing has been that they are expected to become better economic providers for their parents' old age. Yet it is time for parents to think again. Girls may now be a better investment.

Girls get better grades at school than boys, and in most developed countries more women than men go to university. Women will thus be better equipped for the new jobs of the 21st century, in which brains count a lot more than brawn. In Britain far more women than men are now training to become doctors. And women are more likely to provide sound advice on investing their parents' nest egg: surveys show that women consistently achieve higher financial returns than men do.

Furthermore, the increase in female employment in the rich world has been the main driving force of growth in the past couple of decades. Those women have contributed more to global GDP growth than have either new technology or the new giants, China and India (see article). Add the value of housework and child-rearing, and women probably account for just over half of world output. It is true that women still get paid less and few make it to the top of companies, but, as prejudice fades over coming years, women will have great scope to boost their productivity—and incomes.

Governments, too, should embrace the potential of women. Women complain (rightly) of centuries of exploitation. Yet, to an economist, women are not exploited enough: they are the world's most under-utilised resource; getting more of them into work is part of the solution to many economic woes, including shrinking populations and poverty.

Some people fret that if more women work rather than mind their children, this will boost GDP but create negative social externalities, such as a lower birth rate. Yet developed countries where more women work, such as Sweden and America, actually have higher birth rates than Japan and Italy, where women stay at home. Others fear that women's move into the paid labour force can come at the expense of children. Yet the evidence for this is mixed. For instance, a study by Suzanne Bianchi at Maryland University finds that mothers spent the same time, on average, on childcare in 2003 as in 1965. The increase in work outside the home was offset by less housework—and less spare time and less sleep.

A woman's world

What is clear is that in countries such as Japan, Germany and Italy, which are all troubled by the demographics of shrinking populations, far fewer women work than in America, let alone Sweden. If female labour-force participation in these countries rose to American levels, it would give a helpful boost to these countries' growth rates. Likewise, in developing countries where girls are less likely to go to school than boys, investing in education would deliver huge economic and social returns. Not only will educated women be more productive, but they will also bring up better educated and healthier children. More women in government could also boost economic growth: studies show that women are more likely to spend money on improving health, education, infrastructure and poverty and less likely to waste it on tanks and bombs.

It used to be said that women must do twice as well as men to be thought half as good. Luckily that is not so difficult.

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About sponsorship

On conflict, France, neocons, teaching, black Republicans, Nepal, illegal logging, the yuan, bicycles, imaginary dragons

Apr 12th 2006
From The Economist print edition

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Conflict of opinion

SIR – Bill Emmott's valedictory leader is too pessimistic ("A long goodbye", April 1st). Although he notes that globalisation has brought economic growth and the reduction of poverty, he believes armed conflict has increased in the period since the Yugoslav wars, which dominated his early years as editor of *The Economist*. In fact, conflict has not been spreading and the world has been getting steadily safer. The total number of wars declined by a third during Mr Emmott's time as editor and the number of battle deaths declined even faster. Although economic expansion is certainly one explanation for this trend, another reason is that the global response to conflict is improving. Peacekeeping—by the United Nations and others—has helped put an end to old wars about twice as fast as new wars are starting.

Moreover, consider the rise of global justice. Dictators who butcher their people are now less likely to enter a pleasant retirement on the Riviera. The latest example is Charles Taylor, Liberia's former president, who was recently transferred by blue helmets to a UN special court.

David Harland
United Nations Department of Peacekeeping Operations
New York

The meaning of hard work

SIR – Students and unions in France were protesting for secure jobs that are no longer available; many will now expect the government to bolster social and labour policies that fly in the face of global competition ("France faces the future", April 1st). However, the young French people whom I meet in New York have accepted the precarious nature of America's "at will employment" in exchange for the dynamic markets offered to them. Here, they secure jobs by way of their skills, not by way of contracts that discourage private-sector job creation. France still produces many brilliant minds and is a world leader in many sectors. The protesters would have been well served by embracing the global economy, leveraging their formidable assets and concentrating on their classes.

Martin Bischoff
French-American Chamber of Commerce
New York

SIR – Excessive employment-protection is not the main cause of youth unemployment in France as firms get round the problem by offering short-term contracts. It is the prohibitive cost of the minimum wage that keeps inexperienced youth excluded from the labour market. Any labour-market reform that does not specifically address this issue is bound to fail to bring the young back to work.

Jean-Baptiste Michau
Paris

Spent intelligence

SIR – I am aghast that Lexington included a rabble of neocons as part of America's bumper crop of "intellectuals" (March 25th). After the strategic efforts of the hard right to crush fact-based discussions in the United States—through their "think-tanks" and "root-and-branch schemes for improving society"—lauding neocons as intellectuals is a cruel joke that adds a veneer of legitimacy to a band whose economic, political and social disasters we will be coping with for decades to come.

Chris Colón
Columbus, Ohio

Student pedagogy

SIR – Charlemagne observes that teachers are the key to Finland's successful education system (March 25th). This still leaves a question: what makes a good teacher? When I was 15, I conducted a survey in my school. I first asked students to rank their teachers and then asked teachers to describe what they thought made a good teacher. The teachers whom the students ranked best said that if students wanted to learn, they would learn, and if they didn't, they wouldn't. The teacher whom the students ranked worst had a very elaborate theory as to what a teacher should and should not do in order to be successful. The correlation between how much responsibility the students bore for their grades (according to the teachers) and how good the teachers were (according to the students) was almost perfect.

Douglas Keenan
London

Jim Crow's legacy

SIR – Your article on black Republicans fails to take account of segregation, which still affects the attitudes of many black voters ("Are there any?", March 25th). Those Dixiecrats from the "Democrats' racist past", who (often physically) tried to stop blacks from attaining an equal education, switched their allegiance to the Republicans. And it is the Republican Party that axed many of the programmes designed to ensure blacks had equal access to college. While many black Americans may hold fast to Christian beliefs that make them "socially conservative", they still view the Democrats, with all their faults, as the only party working towards a fair society. Until Republicans stop giving tax breaks to their well-heeled friends and give a break to a brother who needs a second chance (or even a first one), they will never attract significant numbers of black voters.

Ernest White
Barranquilla, Colombia

SIR – So you think that blacks might be attracted to the Republicans because of the party's "ideals of hard work and personal responsibility". Are you suggesting that an African-American who votes Democrat does not harbour ideals of hard work and personal responsibility?

Cardon Emmons
New York

Party support

SIR – You claim that "political parties ruled Nepal corruptly and incompetently for 14 years before King Gyanendra's coup" and that they currently have little popular support ("Off his head", March 25th). Though there was corruption, those 14 years were also a period of prosperity and economic reform in Nepal. More roads were built, bridges constructed and schools set up, leading to a huge reduction in poverty. It is also a bit harsh to judge the parties over a timeframe of 14 years when you consider that prior to this Nepal witnessed three decades of partyless *panchayat* rule and more than a hundred years of the Rana dynasty. If the parties were really that incompetent then a truly democratic process would have weeded them out. The 14-year period you question should be viewed as a transition phase, which had its share of bad luck and bad people.

Santosh Pokharel
Orono, Maine

Stumped

SIR –As one of those responsible for the World Bank estimate that worldwide revenues of $15 billion a year are lost through illegal logging, I can assure you that this figure is conservative ("Down in the woods", March 25th). Even so, it is about eight to ten times more than the total funds given to forests in developing countries from assistance agencies, multilateral development-banks and NGOs. The sad reality is that in many developing countries there are too many interest groups that view forests as being worth more (to them) dead than alive. Many poor people who live in or near forests may actually welcome the opportunity to farm on deforested land and bureaucrats in distant capitals may think that unsustainable and low-revenue-yielding forest operations are politically preferable to what they perceive as expensive alternatives. Moreover, had developing countries been able to realise significant carbon-trade values for natural forests under the first round of the Kyoto protocol, incentives to keep those forests intact would have been much strengthened. With the treaty up for renegotiations soon, this opportunity must not be missed again.

Jim Douglas
Former adviser on forests to the World Bank
Canberra, Australia

SIR – The simple economics of illegal logging makes it very difficult for certification programmes to have any meaningful impact on the trade. Rent-seeking and sheer profitability provide strong incentives for powerful pan-Asian logging networks to stay one step ahead of environmentalists trying to regulate the flow of logs from countries such as Indonesia. As you stated, much wood processing is now undertaken in countries from which it is almost impossible to track the honest origin of timber. The potentially high cost of enforcing a sufficiently watertight system of certification is probably too high for green timber to break out of a niche market.

Charles Palmer
Institute for Human-Environment Interactions
Zurich

Money go round

SIR – You argue that the revaluation of the yuan would do little to reduce America's trade deficit ("Yuan step from the edge", April 1st). Chinese authorities buy foreign currency and securities to maintain an undervalued yuan. If they phased out this intervention, prices for Chinese imports would rise and purchases from the United States would shift, as you argue, to other Asian countries. However, this could only be sustained if Asian governments replaced Chinese intervention in currency markets and sterilised their purchases to avoid liquidity-driven domestic inflation. It is highly doubtful their governments could accomplish those feats, so eventually all Asian currencies would rise against the dollar and the rates for American long bonds would increase. Americans' saving and consumption patterns would change, meaning they would save more and import less.

Peter Morici
Professor, Robert H. Smith School of Business
University of Maryland
College Park, Maryland

Not in tandem

SIR – Maybe you had an image from "Il Postino" in mind when you said that Mexico's postal service is inefficient because many letters are delivered by bicycle ("On Mexican time", March 25th). Many countries, including Germany, use bicycles to deliver mail. They are extremely mobile and efficient in terms of cost, space and energy, and provide healthy exercise to employees. Indeed, companies are rediscovering bicycles, using them to deliver everything from pizzas to security services. Mexico's mail system may have serious flaws, but the mere use of the bicycle is not one of them.

Evan Manvel
Executive director
Bicycle Transportation Alliance
Portland, Oregon

Were you fooled?

SIR – If the team at GeneDupe really can create something akin to the Loch Ness monster with their "virtual cell biology" technique, then I and most of your readers will hail them as pre-eminent genetic engineers in their field, rather than what we assume was an elegant April Fool ("Here be dragons", April 1st).

Rishi Dastidar
London

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Jerusalem

The last conquest of Jerusalem

Apr 12th 2006 | JERUSALEM
From The Economist print edition

Israel's plans for Jerusalem will create a large Jewish city but will have harsh consequences for the Palestinians, on both sides of the barrier

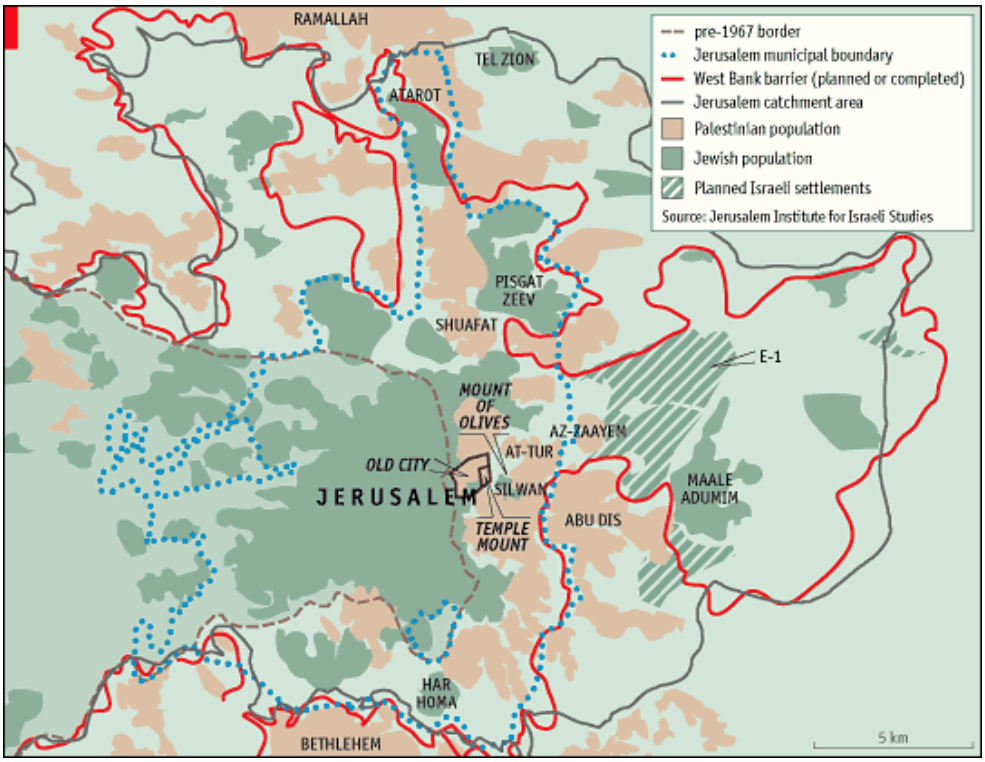
Bridgeman

Get article background

IN THE twilight of a Bethlehem evening, Jerusalem shimmers on a distant hilltop like the Wizard of Oz's Emerald City, its floodlit walls giving it a surrealist glow. Except that these are not the fortifications of ancient Jerusalem as seen above, but the appropriately named Har Homa (Wall Mountain), one of the new Israeli settlements that now ring the city.

After millennia of violent conquest and reconquest, Jerusalem, centre of pilgrimage, crucible of history and the world's oldest international melting-pot, is changing hands once more, but with a slow and quiet finality. Israel redrew the municipal boundary after the 1967 war to enclose some of the West Bank land that it had occupied, a de facto (though not internationally recognised) annexation.

Settlements like Har Homa gradually encroached on the empty spaces. In 2002, as the second *intifada* raged, and central Jerusalem took the brunt of suicide bombings, Israel started building the West Bank barrier or wall, supposedly to keep out Palestinian bombers. But its route, enclosing Palestinian as well as Jewish neighbourhoods of Jerusalem (see map), suggested another purpose too.



Before Israel's election last month, Ehud Olmert, the acting prime minister, outlined his plan to do unilaterally what years of peace talks had failed to achieve: separate Israelis from Palestinians. Most of the smaller West Bank settlements would be removed, their residents brought over to the Israeli side of the barrier. A few days later, Otniel Schneller, a settler leader and member of Mr Olmert's Kadima party, publicly listed the Palestinian parts of Jerusalem that might stay on the West Bank side. Right-wingers accused Kadima of dividing the Jewish capital, but in fact all but two of the areas he mentioned—At-Tur and Az-Zaayem—were already on the West Bank side of the planned route of the barrier. The talk among politicians, said an article in *Haaretz* last month, is of “a strong, large, Jewish Jerusalem”.

In Mr Schneller's vision, the bits Israel does not want can serve as the capital of an eventual Palestinian state. But they are just fragments of what was once not only the Palestinians' cultural and religious centre, but also the hub of the West Bank's central economic zone. The concrete-block barrier, when finished, will cut right through Palestinian Jerusalem, severing it from its hinterland in the West Bank.

The Old City and its holy sites, the stumbling-block of countless peace negotiations (see article), will be put finally out of bounds to all but the couple of hundred thousand Palestinians living in Jerusalem, and the lucky few others who can get visiting permits. Moreover, the wall is just one part of a gradual and complex process of Israeli takeover.

East (Arab) and West (Jewish) Jerusalem functioned as two cities between 1948 and 1967, when the east was under Jordanian occupation. After 1967, Palestinians living within the expanded Jerusalem got blue Israeli identity cards. These give them the right to move freely within Israel, collect social benefits and vote in municipal elections. They do not bestow citizenship.

Box them in

Yet Jerusalem is still essentially two cities—not just in population and economic ties, but also in municipal policy. In a recent book (“Discrimination in the Heart of the Holy City”, International Peace and Co-operation Centre, Jerusalem, 2006), Meir Margalit, an Israeli peace activist and former city councillor, has detailed the differences. Arab Jerusalemites, now about 33% of the city's residents, get just 12% of its welfare budget, even though their poverty rate is more than double that of Jewish residents. They get 15% of the education budget, 8% of engineering services, just 1.2% of the culture and art, and so on. Overall, their share of the services' budget is under 12%, meaning a four-to-one difference in spending per person between Jews and Palestinians. In countless other things, from the number of garbage containers on the streets to the employment rates at city hall, there is a massive disparity in favour of the city's Jews.

Arab Jerusalemites share some blame for their disenfranchisement. They tend to boycott local elections in protest at the occupation, so that the city council is now dominated by ultra-Orthodox Jews. But the bias in policies is too blatant and too long-standing to be down to that alone.

There is a similar bias in the property market. Getting building permits, always hard and expensive for Arab Jerusalemites, has got still tougher. This is partly because a lot of East Jerusalem has been zoned as non-construction land, while other chunks have been allocated for settlements; partly because the Palestinians' land records are not always clear; and partly because the requirements for permits have got even more stringent than they were already.

Some people therefore build illegally to accommodate growing families. But even then, there is discrimination in enforcement. Inspectors recorded three to four times as many infractions of building regulations in West as in East Jerusalem in 2004 and 2005, but in the west charges are much less likely to be brought, and in the east far more houses are demolished.

The same tough enforcement is rarely meted out in settlements like Har Homa and Pisgat Zeev, both built after the start of the Oslo peace process in 1993, which have filled in the gaps between Palestinian districts, constricting their growth. The final boxing-in will be done by building thousands of houses in the currently empty zone known as E-1, east of the city, to form a Jewish swathe joining Jerusalem to the settlement of Maale Adumim.

Other settlements stake out absurd claims for Jerusalem's new boundaries. Tel Zion, an ultra-Orthodox settlement on an isolated hilltop near Ramallah, describes itself as “part of North Jerusalem”. Travellers heading eastwards from Pisgat Zeev see a billboard advertising Anatot, still just a small gaggle of buildings lost in the desert a few kilometres farther on, as the “best deal in Jerusalem”. Both Tel Zion and Anatot will be outside the barrier. Yet in both, building continues apace.

Squeeze them out

Because of the expense and difficulty, some Arab Jerusalemites have left for villages on the outskirts, or for Ramallah or Bethlehem. That makes their homes targets for a form of settlement more subtle than Har Homa. Religious Zionist organisations, such as the El Ad City of David Foundation and Ateret Cohanim, want to recreate the Jewish communities that used to exist in and near the Old City. In a place with so long and multi-layered a past, making a historical claim to land is merely a matter of going back the right distance in time. Such bodies specialise in buying properties from Arab Jerusalemites, sometimes through middlemen so the owners do not know who the real customers are, and selling it on to fervent Zionists. Arab neighbourhoods like Silwan (where the biblical City of David stood) are now dotted with fenced Jewish compounds.

In the late 1990s, when Israel briefly threatened to take away blue ID cards from anyone who could not demonstrate that their “centre of life” was in Jerusalem, many Arab Jerusalemites rushed back. The policy was then revoked, but the fear that it might be renewed as the barrier takes shape has made more people return. That has increased the pressure on space and services in the already run-down eastern city, and pushed up property prices.

There will be other consequences as the barrier is completed, writes Yisrael Kimchi of the Jerusalem Institute for Israel Studies (JIIS) in a recent report (in Hebrew) called “The Security Fence in Jerusalem: Consequences for the City and its Inhabitants”. Jerusalem is already one of Israel's poorest cities because both Palestinians and ultra-Orthodox Jews, two groups of which the city has plenty, tend to have large families and be low-paid or unemployed. Overcrowding and rising poverty in East Jerusalem will add strain to the budget. And with them will come higher crime rates and greater friction at the seams between Jewish and Arab areas.

To escape such conditions, better-off East Jerusalemites and those from districts like the Shuafat refugee camp, who hold blue IDs and are going to be left on the Israeli side of the barrier, are already moving to Jewish neighbourhoods—among them, ironically, settlements like Pisgat Zeev. A paradoxical result of walling off a strong, large, Jewish Jerusalem from the Palestinians is to make it more Palestinian.

Fence them off

In the easternmost parts of the city, where the barrier cuts between the Mount of Olives (inside) and Abu Dis (outside), running right through residential neighbourhoods, a strange sight presents itself. The great concrete wall leaks people. In the morning, they squeeze through gaps between the blocks and existing buildings, helping each other to negotiate piles of rubble and loops of barbed wire. In the evening they are sucked back in. For thousands, this is the daily commute.

Most of them are blue ID holders who prefer some discomfort to a long detour to the nearest official crossing point. One way or the other, some 60,000 people are thought to cross each day in each direction. While the wall is still incomplete, the soldiers often tolerate their infractions.

But according to a survey by the JIIS, a wide swathe of West Bank Palestinians without blue IDs are also in East Jerusalem's catchment area. For it is (or it was until recently) their main place of work or study, of shopping and

recreation. An unknown number—some say 40,000—also live there illegally. Cutting them off from Jerusalem not only complicates their lives and splits up families. It takes away business from Jerusalem, impoverishing it further. And it creates joblessness in Ramallah, Bethlehem and the surroundings, adding to the severe depression of the West Bank's economy.

A series of industrial estates that have gone up around the edge of Jerusalem and in the West Bank could help. Ezri Levi, head of the Jerusalem Development Authority, says that places like the Atarot industrial estate, located just by the checkpoint between Jerusalem and Ramallah, are intended partly to create jobs for those West Bankers who can get permits to work there, which should, he argues, “reduce the tensions between the two populations”. But Jeff Halper of the Israeli Committee Against House Demolitions, a pressure group, points out that the estates also allow Israel to maintain its economic dominion: Israeli firms can compete with West Bank firms for cheap labour, yet the Palestinian firms cannot compete with the Israeli ones for custom.

Before the barrier began to go up, the *intifada* had done its worst to the tourist industry on which both Jerusalem and Bethlehem thrive. Though more than a year of relative calm (thanks less to the barrier than to a ceasefire by the militants) has brought an upturn, tourists and pilgrims are still reluctant to stay the night in Bethlehem, on the West Bank side of the barrier, so the city's hotel business is collapsing.

The cruelly winding wall

If there has to be a barrier—and Israel is not going to abandon it so long as a hostile Hamas remains in control of the Palestinian Authority—how could it create less damage? There are no easy answers. The JIIS outlines a number of possible routes, each with pros and cons. Following the pre-1967 border would mean leaving settlements with over 200,000 people, which the wall is supposed to protect, outside it. Drawing it along demographic lines—separating Jews from Palestinians—would preserve a sensible economic division, but nobody wants a new Berlin Wall down the middle of the city, and it would mean depriving 230,000 blue ID holders of at least some benefits. Following the municipal boundary exactly would still drive in the economic wedge that the current route does. Enclosing everybody, Arab or Jewish, who lives in Jerusalem's catchment area would take a huge bite out of the West Bank.

What may matter more than the barrier's route, says Maya Khoshen, a researcher at the JIIS, are the arrangements: the economic ties between Israel and the West Bank, Israel's readiness to grant permits to cross the barrier, the number of available crossing-points, and how efficiently and civilly they are run.

If the barrier really is just for security, Israel could take measures to reduce its economic impact. It could improve the conditions for Palestinian Jerusalemites and it could stop the incessant encroachment of Jewish neighbourhoods into Palestinian areas. But so far its main concern seems to be to ensure that this conquest of Jerusalem be the last one.

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Jerusalem's holy places

The heart of holy war

Apr 12th 2006
From The Economist print edition

A God-given muddle that God alone may be able to sort out

EPA

Because men have failed to do so

Get article background

THINK of Jerusalem as a holy place, and at least two images spring to mind. One is the towering slab of yellow-white, pockmarked stone, at the foot of which Hebrew prayers are softly uttered. The other is the dazzling golden dome that commands the sky-line. These images are different views of the same structure: the western wall, a focal point for Jewish prayer and pilgrimage, is one of the supports for the elevated stone platform that is known to Jews as Temple Mount and to Muslims as Haram al-Sharif, or the Noble Sanctuary.

Most Jews revere the mount as the generally accepted site of the first and second temples which were seen as unique points of encounter between man and God (though their exact position is disputed). The Dome of the Rock, and al-Aqsa mosque at the southern end of the platform, affirm Jerusalem as al-Quds, the holy place which Muslims rank third in sanctity after Mecca and Medina because of the night journey to heaven Muhammad is believed to have made from the mount. In the tradition of Christians, most of whom celebrate Easter this week, the mount is where Pontius Pilate sat in judgment over a man who dared to call himself—not a building—the locus of divinity on earth.

If some prize existed for the most explosive piece of real estate in the world, this 35-acre platform would surely win. The uneasy peace that prevails there at the moment rests on the status quo that was enforced by Israel when its army took control of east Jerusalem in 1967.

The platform and its Muslim holy places are under the custody of an Islamic waqf, or religious foundation, while Israel is responsible for security and access. No organised Jewish prayer is allowed on the platform; this ban is underpinned by a rabbinic ruling that Jews should avoid going to the mount for fear of straying into the former site of the “holy of holies”—the most sacred part of the temple—in an impure state.

Many religious Jews and pious Muslims grumble over the present regime. Muslims are resentful when the Israeli authorities, at times of high tension, impose restrictions on access, for example by keeping out young men. And there are half a dozen small but vocal Jewish groups who demand, at a minimum, the right to pray on the platform—and in some cases dream of replacing the Muslim places of worship with a third temple, ready to greet the Messiah.

But the tensions caused by the current regime are minor compared with the fury that could follow any attempt to settle the platform's future for good. In the four decades since Israel took control, religious arguments have intensified. Among Muslims everywhere, al-Aqsa mosque has gained prominence as a symbol. The Jews who long to build a third temple have won allies among some American evangelical Christians. Palestinian Muslims are less willing than before to acknowledge the site's Jewish antecedents, while Jews have retorted that Muslims care about Jerusalem only when its political status is in dispute.

In 2000, when the Clinton administration made the last serious attempt at an overall Israeli-Palestinian settlement, proposals for dividing the mount (for example, by giving the Palestinians the platform's surface, while leaving Israel everything beneath, including the wall) triggered howls of rage from both sides. Neither Israelis nor Palestinians could bear to give up any part of the structure.

It has since been argued that because partition will never be accepted, the two sides must either agree to disagree and focus on practical matters—or else agree that in such a holy place, no human power can hold sway, so it should be subject only to the sovereignty of God. Nobody has defined what this proposal (first floated by the late King Hussein of Jordan) would mean in practice. It implies, perhaps, that the mount be denationalised, with international guarantees ensuring freedom of worship for all. But first the children of Abraham have to set aside their nationalistic ambitions.

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Immigration

Not criminal, just hopeful

Apr 12th 2006 | WASHINGTON, DC
From The Economist print edition

Reform of America's immigration laws has stalled. Will this week's huge demonstrations revive or smother it?

Getty Images

Get article background

IN FRANCE the nation's youth marched for the right to work half-heartedly and not be sacked. By contrast, hundreds of thousands of immigrants in more than 100 American cities marched for a chance to work hard and not be deported. The French demonstrators forced their government to back down (see article). The mostly Latino masses on America's streets, despite impressive numbers, less violence and a worthier cause, are still some way from victory.

Last week, the Senate failed to pass a reform of the country's dysfunctional immigration system. The bill, sponsored by Chuck Hagel of Nebraska and Mel Martinez of Florida, both Republicans, would have combined tougher border controls with a path towards legalisation for most of the estimated 11m illegal immigrants who are already inside the United States. Most senators thought the bill good enough to pass; it was a compromise between more restrictive and more generous proposals. But it was scuppered by obstructionists from both parties just before the Senate closed for a two-week recess.

This week's rallies were to have been a celebration of the law's passage. Instead, the marchers marched to demand its resurrection, or at least the squelching of a House bill, sponsored by James Sensenbrenner, a Republican from Wisconsin, that would make illegal immigration a felony punishable by jail. It would also punish those who help illegal immigrants.

“I just want not to be a criminal,” said Jorge Rodriguez, an undocumented plasterer from El Salvador, one of an estimated 180,000 demonstrators in Washington, DC. Legions of marchers, legal and illegal, echoed his cry. The throng included some native-born Americans, too, marching out of a compassion they feared the Sensenbrenner bill might criminalise. “I teach ESL [English as a second language]” read one placard. Its holder was not touting for customers, though he doubtless would have found plenty. “I am not a criminal” read the placard's reverse.

Will the rallies nudge senators into thrashing out a comprehensive reform bill when they get back from their spring break? Or will the sight of so many foreigners making demands of the American government fuel the rage of those who think they have no right to? “My first thought is anger, folks,” said Rush Limbaugh, a popular conservative talk-radio host. “How can they just show up and brazenly demand to be...allowed to be against the law, and nobody does anything about it? Some of you might say, ‘Surround them with INS agents'.”

There are reasons for hoping that calmer voices will prevail. First, the demonstrators have shown themselves

sensitive to non-Hispanic America's fears. After complaints that too many Mexican flags appeared at previous marches (which some Americans said hinted at divided loyalties and perhaps even at plans for a stealthy *reconquista* of the parts of the south-western United States that used to be Mexican), the organisers this time persuaded most flag-carriers to wave the Stars and Stripes. Some formed human pyramids to wave it higher.

Second, the immigrants have aspirations most Americans can relate to. A new survey found that 92% worked, 98% wanted to learn English and 96% were happy to be fingerprinted and subjected to a criminal background check as part of a process that might lead to them becoming legal citizens.

Thirdly, as the marchers put it: “Today we march, tomorrow we vote.” Illegals can't vote, of course, but many have relatives who can. Some politicians, from both parties, are eagerly courting the Latino vote. “I look across this historic gathering and I see the future of America,” boomed Ted Kennedy to the marchers in Washington. Other politicians, mostly Republicans, think there are more votes to be won by promising border fences, mass deportation and other measures to protect the native culture. “We need to take a realistic look at the notion of birthright citizenship,” said J.D. Hayworth, a Republican congressman from Arizona, on NBC's “Meet the Press”.

Polls show that most non-Hispanic Americans think illegal immigration should be curbed. But this rarely determines how they vote, says Tamar Jacoby of the Manhattan Institute, a think-tank. Latinos, by contrast, see anti-immigrant laws as anti-Hispanic, and remember such slights.

Since the Hispanic vote is far from monolithic (unlike the black vote), neither party can take it for granted. But either party could alienate it. Latinos see George “Family values don't stop at the Rio Grande” Bush as sympathetic to their cause. (“He's a good leader,” says Mr Rodriguez, the plasterer.) But they recoil at the nativist wing of his party. Luis Gutierrez, a Democratic congressman from Illinois, summarised the message of the Sensenbrenner bill as: “You're all criminals and we want you to each tell on each other and deport each other.”

Mr Bush has said that immigration reform—including both tougher enforcement and a path to legality—is one of his top priorities. Whether Congress will write a bill worth signing, however, remains to be seen. Ms Jacoby says she hopes Republicans will ask themselves which side of history they want to be on, and Democrats will stop blocking negotiations over details. Or, says Dan Griswold of the Cato Institute, a libertarian think-tank, “It could all go up in flames.”

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Taxes

April's hard truths

Apr 12th 2006 | WASHINGTON, DC
From The Economist print edition

Under George Bush, America's awful tax system has got even worse

Get article background

EVERY year, as millions of Americans scramble to file their tax returns by the statutory deadline of April 15th (technically April 17th this year, as the 15th falls on a Saturday), the spotlight focuses on America's tax code. For George Bush, the result is embarrassing. Quite apart from the recklessness of a fiscal strategy based on cutting taxes and boosting spending, the man who promised to devote his second term to making America's tax system simpler, fairer and more pro-growth has presided over something rather different. During the past five years America's tax code has become far more complex, somewhat less progressive, and has done less to improve incentives to work and save than first appearances suggest. Of course, it is not all Mr Bush's fault; Congress has done plenty to help. But Congress never said it would improve matters.

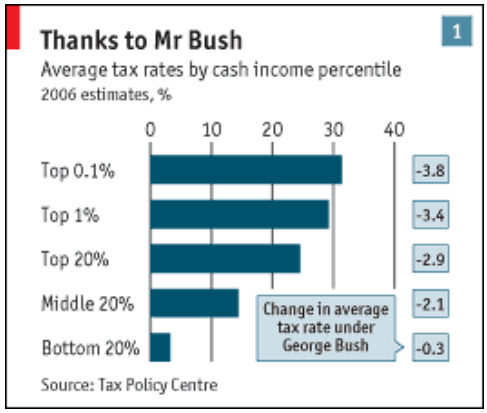
The tax code's complexity is notorious. Overall, Americans spend around 3.5 billion hours doing their taxes, an average of about 26 hours per household. Around $140 billion is spent on tax preparation and compliance every year, according to Joel Slemrod of the University of Michigan, as desperate households seek professional help. Tax rules were horribly complicated, of course, long before the Bush presidency, but during the past five years things have got much worse. The number of pages of federal tax regulations has risen by over 40%, from 46,900 in 2000 to 66,498 this year, according to Chris Edwards of the Cato Institute. The number of different tax forms issued by the Internal Revenue Service has soared from 475 in 2000 to 582.

Part of the headache for individuals is caused by the rise of the fiendishly tricky Alternative Minimum Tax (AMT). This parallel income tax, originally designed to stop rich people claiming too many deductions, is now ensnaring middle-class families. But most of the new paperwork has to do with recent tax-policy decisions.

Both the Bush team and, especially, Congress have used the tax code as a tool of social policy and source of patronage, pushing endless tax incentives for favoured groups or activities. There are now 16 separate tax breaks for education costs, up from seven a decade ago. The number of energy tax breaks has more than doubled since 1995. Thanks to this labyrinth of targeted (and often temporary) tax breaks, the Bush administration has done less to improve the tax code's incentives than it likes to think.

As disenchanted supply-siders point out, many of Mr Bush's tax cuts, such as the doubling of the child tax credit, have done little to improve incentives at the margin. Often such tax breaks produce high marginal rates as the exemptions phase out. Families with incomes above $110,000, for instance, have seen their marginal income-tax rates rise as their child tax credit gradually disappears.

Nonetheless, Team Bush did push through some clear cuts in marginal rates, notably the 2001 income-tax cuts and the big cuts in the taxation of dividends and capital gains in 2003. These cuts have improved incentives to work and save (though John Snow, the treasury secretary, is prone to overstate by just how much; even in theory, the link between lower dividend taxes and higher investment is ambiguous). The problem is that Mr Bush's failure to cut spending at the same time makes it less likely that these tax cuts will be permanent. (Republican leaders in the House failed to achieve a two-year extension before leaving for their Easter break.) That uncertainty does not improve the tax code's efficiency.



Politically, the most contentious issue is whether Mr Bush's tax cuts have made the code more or less fair. The White House likes to argue that its tax cuts have increased the progressivity of the federal tax system, usually by pointing out that the share of taxes paid by richer Americans has risen since 2001.

The trouble is that this is not a good measure of progressivity. The share of taxes paid by different income groups

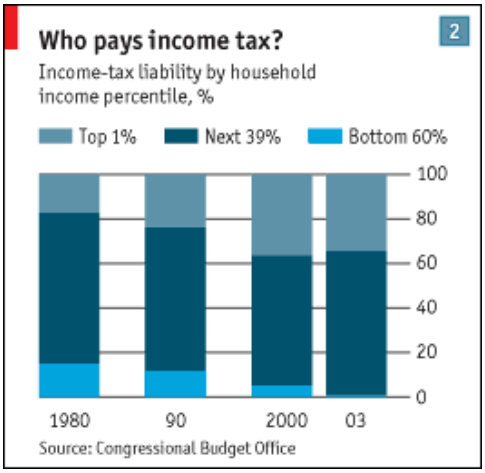
can vary dramatically for reasons that have nothing to do with changes in the tax code. In 2001, for instance, the share of taxes paid by the richest fifth of Americans fell because of the large drop in the stockmarket. In the long term, America's income distribution has widened dramatically; since 1979 the share of income going to the top 1% of Americans has risen by over 50%, from 9% to 14%. Even with no change in tax rates, that implies a large increase in the share of income tax paid by the rich.

A better measure of tax progressivity is how the average tax rate varies across income groups (although that, too, can be affected by changes in income distribution). In a progressive tax system, richer people should pay tax at a higher average rate than poorer ones. Tax cuts are progressive if they reduce average tax burdens more at the bottom than the top.

Tending to regress

Chart 1 (above) shows average effective federal tax rates for American households at different levels of income distribution. This is an overall measure: it includes payroll taxes (which disproportionately hit the bottom level) as well as corporate income taxes (whose burden is assumed to fall on richer people since they hold most shares). America's tax system is clearly progressive; richer people have a higher average tax rate than poorer ones. But, by some measures, the Bush tax cuts have made it moderately less so. Calculations by the Tax Policy Centre show that the Bush tax cuts reduced average tax rates more for richer Americans than poorer ones. Assuming Congress patches up the AMT, the average tax rate in 2006 for the richest 0.1% of Americans is 3.8 percentage points lower than without the tax cuts. For the bottom 20%, the average tax rate has fallen by 0.3%.

It is hard to avoid this outcome, however, if you are cutting income taxes. Thanks both to widening income inequality and improvements in progressivity over the past two decades, America's income tax is increasingly paid by the rich (see chart 2). In 1980 the poorest 60% of Americans paid 15.1% of all income taxes, compared with 17.4% paid by the richest 1%. By 2003 the bottom 60% paid a mere 0.6% of all income taxes. The Earned Income Tax Credit, a kind of negative income tax that has been expanded several times in the past 20 years, means that the poorest Americans receive money from the federal tax system. Mr Bush's refundable child credit enhanced the trend. The poorest 20% of Americans had an average income tax rate of -6% in 2003;-10% for households with children. Of the 136m Americans who file federal tax returns, 43.4m or 32% have zero or negative tax liabilities. Twenty years ago, that share was below 20%. For most Americans the income tax is much less important than the payroll tax.



Add together the recent record in complexity, incentives and progressivity and one conclusions jumps out: America needs a comprehensive tax reform that includes all types of federal taxation, rather than the current approach of piecemeal reform via tax cuts. Mr Bush had the right goal for his second term. Too bad that he now has neither the courage nor the political capital to achieve it.

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Chicago

Pretty in pink

Apr 12th 2006 | CHICAGO
From The Economist print edition

The city of big shoulders tries on a girlie colour

ARE the flush cheeks on Chicagoans' faces the result of a stiff wind off Lake Michigan—or are they just embarrassed by the shade of their latest commuter line? The Chicago Transit Board has announced that the city's new elevated rail service, which will run on a trial basis for six months, will be the Pink Line. The colour of baby girls and Barbie dolls hardly seems to suit the image of a gritty, no-nonsense, sausage-eating mid-western town—especially since the area the new line will run through is, in parts, tough as nails (and not the kind you coat with hot pink polish). Locals are scratching their heads.

Two of Chicago's venerable sports teams—the White Sox and Blackhawks—embrace stark colours from plainer times. The city's pro football team, the Bears, plays in the “black-and-blue” division, so nicknamed because it is historically America's most violent. In some towns, pink is in fashion on St Valentine's Day; but the home of Al Capone associates that date with arterial red.

Great cities must adapt, however, and to dwell on the White City of the 1893 World's Fair, or the Blues Brothers of the 1970s, would be to live in the past. So Chicago is sprouting fresh colours. Richard Daley, the mayor, has tried to create more green spaces, from parks to rooftops, to pretty up its image. The Boys Town section of Lakeview, a residential area favoured by many gays, has a street lined with rainbow-coloured towers that serve as beacons of tolerance.

But pink? The decision followed a write-in contest among hundreds of schoolchildren (all those pupils who picked pink are entered in a contest to win a $1,000 savings bond). Since the city is not known for clean politics, perhaps this should be looked into. At least the chairman of the Chicago Transit Board comes under no suspicion: her name is Brown.

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New Orleans

A mayor in trouble

Apr 12th 2006 | NEW ORLEANS
From The Economist print edition

Ray Nagin finds that Katrina has swept his votes away

WHEN Jesse Jackson and Al Sharpton led a protest march in New Orleans on April 1st on behalf of displaced black voters, Ray Nagin, the city's mayor, was right at the front with the preachers. Mr Nagin faces 22 opponents in the primary on April 22nd, and he needs help—not least from God—to win re-election.

Before Hurricane Katrina struck more than seven months ago, Mr Nagin would probably not have featured in any such demonstration. When he won office in 2002, in a city where politics often splits along racial lines, whites supported him in greater proportion than other blacks did; indeed, critics called the former cable-TV executive “Ray Reagan” because of his chumminess with the city's conservative business elite. By last summer, the mayor had more than $1m in his campaign fund, no strong challengers and no reason to fear that voters would turn him out.

Not any more. In the aftermath of Katrina, much of Mr Nagin's white support has melted away. But most black leaders, including some who never really liked him, are uniting behind him. Meanwhile, national civil-rights groups have failed to force another delay in the election cycle, which was originally scheduled to begin with a primary on February 4th.

Until flooding drove hundreds of thousands of New Orleanians out of low-lying districts, the city's population was more than two-thirds black. The areas that stayed dry and were repopulated first are heavily white. Yet some of Mr Nagin's political woes have nothing to do with changing demographics. Although his pre-Katrina efforts to clean up city government were popular with voters, turnover was high among his top staffers, and other officials complained that his administration was uncommunicative and erratic.

The mayor's casual, unscripted style, which once endeared him to voters, has not worn as well with flooded-out folk facing ruin. He convened a Bring New Orleans Back Commission to plan the city's recovery, but has alternately embraced and ignored its recommendations. And he mused unwisely in January that New Orleans would again be a “chocolate” city—and that God wanted it that way.

Mr Nagin's missteps have attracted a host of challengers. In Louisiana, all candidates of all parties compete in an open primary, and the top two finishers face each other in a runoff if no one has won more than 50% of the vote. Getting on the ballot is easy. The mayor's challengers include a former Nagin aide, a prominent minister, the former owner of a minor-league baseball team, a classical-music radio announcer and many other no-hopers. Two significant opponents have emerged: Louisiana's lieutenant-governor, Mitch Landrieu, the son of the city's last white mayor, a shrewd consensus-builder whose family does well among black voters; and Ron Forman, head of the Audubon Nature Institute and best known for turning the dismal city zoo into a world-class tourist attraction, who is favoured by the business elite.

Some civil-rights organisations fear that a surge of well-financed white candidates will reverse black political gains. For that reason, activists wanted the state legislature to set up voting stations in Texas, Georgia and other states with large numbers of evacuees. Yet Greg Rigamer, a consultant whose firm has examined voter-registration and change-of-address records, thinks the size of the out-of-state evacuee vote has been overestimated. His count suggests most New Orleans voters are either back at home or staying in nearby suburbs.

The state did set up early voting stations across Louisiana to accommodate New Orleans voters, and it has received more than 14,000 requests for mail-in absentee ballots. Still, various black groups have threatened a legal challenge if the vote on April 22nd falls short of their standards of fairness. New Orleans can ill afford weeks or months of wrangling. But as long as the mayor's race lasts, voters can expect to see more protests and posturing than potentially unpopular decisions.

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The California governor's race

Nerds v Terminator

Apr 12th 2006 | LOS ANGELES
From The Economist print edition

Why it's so difficult for the Democrats to get the better of the incumbent

Get article background

CAN a Democrat, come the November election, topple Arnold Schwarzenegger as governor of California? In theory, the Democrats have a perfect right to fancy their chances: they have a healthy advantage in voter-registration; they dominate both houses of the state legislature; and the megastar governor, anxious to appeal to his Republican base, proved so woefully out of touch with popular opinion that his approval rating slumped from 65% in August 2004 to 35% in November 2005.

Yet the Democrats, who are holding their state convention later this month, are not exactly brimming with confidence. One of the reasons is that neither Steve Westly nor Phil Angelides, the two candidates who will fight it out for the Democratic nomination in the June primary, is a household name, even though one is the state's controller (ie, chief financial officer) and the other its treasurer. Thanks to the blitz now beginning of television commercials, this could change, but not by nearly enough to put them on a par with the Gubernator—compared with whom they will still look painfully nerdish.

Moreover, that blitz will cost money. For Mr Westly, who made a fortune as a manager at eBay, that may not be too damaging. But Mr Angelides, whose wealth came from property development, has fewer millions; if he wins the primary, his remaining war chest may be too small for an effective battle in November. In the meantime, the two are trading insults through the media.

But the bigger reason for Democratic doubts is that the governor, whose anti-union initiatives were resoundingly defeated in November's special election, appears to have learned his lesson. His new chief of staff, Susan Kennedy, is a Democrat who once worked for Gray Davis, the governor whose reign Mr Schwarzenegger so abruptly terminated. And the chief strategist of his re-election team is Matthew Dowd, who is a former pollster for George Bush but also a former Democrat.

More important, the governor is promoting a set of “rebuild California” projects that are hard to attack without appearing to be either mean or short-sighted. According to the Public Policy Institute of California (PPIC), 69% of Californians support his ten-year plan, costing a hefty $223 billion (including $68 billion in taxpayer bonds), to repair and expand the state's dilapidated infrastructure.

None of this adds up to an assured second term for Mr Schwarzenegger, even though the PPIC gives the governor a 41-29% edge over Mr Angelides among likely voters and a 39-31% margin over Mr Westly. The public-sector unions are still dogging the governor's every move, and both Mr Westly and Mr Angelides are highlighting his unfulfilled promise to restore the $2 billion in education funding that he used to balance the 2004 budget. Last week, Mr Westly advocated diverting more money from the state lottery to the struggling school system while Mr Angelides talked of raising more tax from the super-rich. Mr Schwarzenegger, as the US Chamber of Commerce emphasises in the TV campaign it is running in his support, has never been a man to raise taxes.

In the end, the electoral outcome will depend on two overlapping groups: independents (more than 18% of the electorate) and Latinos (14% of likely voters). One of the reasons why Mr Schwarzenegger was elected in 2003 was that he won a decent chunk of the Latino vote—and he probably needs 20% support to stay in office. This no doubt explains his recent fuzziness on the immigration issues that have been hogging the headlines. Messrs Westly and Angelides also need to be careful: they want to cultivate the Latino vote, but not so much that they alienate Anglos and blacks. For the record, the PPIC reckons that the governor will get 26% of the Latino vote if his opponent is Mr Angelides, and 24% if it is Mr Westly.

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Salmon fishing

Net loss

Apr 12th 2006 | BODEGA BAY, CALIFORNIA
From The Economist print edition

Saving the fish of the Klamath river

NORMALLY, at this time of year, the Tides Wharf in tiny Bodega Bay is cluttered and busy with boats, fishmongers, and fish. The Tides is a local drop-off point for fresh wild-caught chinook salmon, which it distributes to restaurants and supermarkets in Sonoma and Marin counties north of San Francisco. The chinook, arguably the tastiest of all the salmons, produces a delectably rich pink-orange meat, and the fresher and wilder it is, the better.

But this year the Tides, like wharves up and down the coasts of northern California and Oregon, is broodingly quiet. The Pacific Fishery Management Council, a federal advisory group for the National Marine Fisheries Service (NMFS) of the Department of Commerce, last week recommended that commercial and tribal salmon fishing be severely restricted along 700 miles of coastline, from Cape Falcon in far northern Oregon to Point Sur on California's central coast, for May, June, and July, the most productive months of the April-October salmon season.

The problem isn't the number of salmon in the ocean. Fishermen and regulators agree there are plenty. The council's recommendation, which is unlikely to be changed by the fisheries service, is designed to protect the calamitously dwindling salmon of the Klamath river.

Historically, the Klamath was the third-most important salmon river in the West, after the Columbia and the Sacramento. But dams, diversions and recent drought have combined to push the spawning salmon population in the Klamath well below the 35,000-fish threshold deemed necessary for the river to maintain a sustainable salmon population. And because there is no way to tell a Klamath-spawned salmon from one from any other river once the fish reach the ocean, the fishery council says it has no choice but to restrict all salmon fishing along 700 miles of coast.

Although the 668,000 chinook caught off Oregon and California in 2005 contributed less than 1% to America's salmon consumption last year, the council's decision is bad news for the 1,200 or so fishing vessels along the west coast, and for their small ports. The total economic benefit of the salmon fishery in the restricted area averages $133m annually, according to council figures. Other estimates put it far higher.

The Klamath river's dams, owned by PacifiCorp, a former subsidiary (remarkably enough) of Scottish Power, date back to 1918, and were built without fish ladders to help salmon returning to their natal waters. Retrofitting four old dams with ladders could cost up to $200m, according to PacifiCorp, but annual hydroelectric revenues from the dams are a fraction of that. In late March the Department of the Interior and the NMFS called for ladders to be installed as a requirement for federal relicensing. Removing the dams altogether, which would cool down the river and reduce salmon-infecting parasites, is also being considered but is similarly expensive.

Further complicating the matter is the use of river water upstream for agricultural irrigation. In 2001 federal fishery authorities, already aware of shrinking salmon numbers, shut off access to Klamath water for farmers in southern Oregon, who then protested noisily. In 2002, the secretaries of interior and agriculture came in person to reopen the sluice gates.

Farmers in the Klamath basin use about 350,000-400,000 acre-feet of water a year. But the water is re-used several times; and besides, Klamath farms are an important source for organic alfalfa, most of it shipped down to California's burgeoning organic dairy industry. This fact is muddying sympathies among environmentalists. Everyone is hoping for compromise.

In Alfred Hitchcock's film “The Birds”, seagulls, crows and ravens suddenly and for no apparent reason begin attacking the residents of Bodega Bay—a metaphor, perhaps, for Nature's revenge against human environmental

mismanagement. Now it is government bureaucrats who seem to be terrorising the place, taking revenge for the long abuse of a very sick river.

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Arizona

Take your sinuses somewhere else

Apr 12th 2006 | PHOENIX
From The Economist print edition

With drought and pollution, Arizona is full of sneezers

BACK in the 1890s the leaders of the Arizona Territory, eager for new settlers in a place that was barely habitable before air-conditioning, ran newspaper advertisements promoting the dry desert air as excellent for health. The campaign has continued, in one way or another, ever since. Advertisements for sinus sprays chirpily call on sufferers to “send your sinuses to Arizona”. Indeed, the state has become known as “the Sinus Capital of the World”.

Not these days. With the spring allergy season in full swing, medical staff across the state are rushed off their feet, with a two-to-four-week wait for appointments. There have been 25 “high pollution advisories” since November 1st, and some 35% of urban Arizonans now suffer from hay fever. That is double the national average overall and probably more than double the number for places like Phoenix 30 years ago (the figure is inexact, as the definition of “allergies” has changed).

Locals and experts place much of the blame on newcomers, whose numbers spiked last year. The population of Greater Phoenix, for example, has grown by 39% since 1995. Recent arrivals bring pollution with them as they build their houses and drive their cars. In Arizona, where cities sprawl and carpooling is soppy, traffic is a wicked offender.

Richard Weber, an expert on airborne allergens at the National Jewish Medical and Research Centre in Denver, Colorado, notes that new homeowners insist on planting and watering foreign vegetation. This raises humidity and mould levels, as well as introducing new pollens. Newcomers need to learn to love the saguaro cactus, he says, rather than planting eucalyptus, olive and mulberry trees. “People try making Arizona a surrogate of the Midwest or other places they left. It just messes things up.”

For allergy sufferers, this is tough. Pollen covers concrete and cars, and daily smog advisories are posted on freeways. People with hay fever, asthma and bronchitis relentlessly cough and sneeze. Some of them suffer from February to June, sensitive not only to dust and mould but to most of Arizona's wild flowers and plants. The beautiful magenta-flowered bougainvillea is especially irritating to some; and valley fever, a lung disease caused by inhaling fungal spores found in desert soil, is reaching an all-time high this year.

But the newcomers and the flowers are not the only source of all this misery. Arizona's 11-year drought is also a chief culprit: sinuses need a bit of humidity. Recently, the state had seen no rain for 143 days—and even in a desert this is unusually severe—until the drought was briefly interrupted by a downpour and a couple of showers at the beginning of March.

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Lexington

The way we live now

Apr 12th 2006
From The Economist print edition

The perils of literary realism in the United States

FOR years, Tom Wolfe has been lambasting America's literary establishment for ignoring the best story around—their own country. America positively pullulates with fantastic stories. And yet its writers, ensconced in their Manhattan lofts and writer-in-residence residences, can't be bothered to look further than the ends of their noses. “At this weak, pale, tabescent moment in the history of American literature,” Mr Wolfe wrote in one of his manifestos on behalf of literary realism, “we need a battalion, a brigade, of Zolas to head out into this wild, bizarre, unpredictable, hog-stomping, Baroque country of ours and reclaim it as literary property.”

Yet the trouble with turning yourself into an American Zola is that you immediately expose yourself to being trumped by reality. The better sort of critics are forever lambasting Mr Wolfe for going over the top—for using cartoon characters to exaggerate the evils of modern society—but the truth is the opposite. Mr Wolfe's satire pales into insignificance compared with the hog-stomping reality that he tries to capture.

Take Mr Wolfe's most recent novel, “I Am Charlotte Simmons” (2004). The book poked fun at the macho culture of an elite university that was closely modelled on the would-be Princeton of the South, Duke. This fictional institution liked to think of itself as being at the cutting edge of political correctness, all unisex lavatories and gay-pride demos. But in reality it was ruled by an elite caste of jocks—brainless bores who spent their lives drinking themselves senseless or wam-bam-thank-you-mamming with any co-ed they could get their hands on. And none were more boorish and brainless than the lacrosse players.

Elaine Showalter, a retired Princeton professor, duly published a tut-tutting review accusing Mr Wolfe of missing the “feminist revolution” and engaging in the “grossest of stereotypes”. Yet Mr Wolfe's story is tame by comparison with recent events at the real Duke. It seems that a month or so ago a group of —yes—lacrosse players hired a couple of strippers to entertain them of an evening. Unfortunately, what might have been a routine night of booze and bawdiness ended in turmoil. One of the strippers accused three lacrosse players of raping and assaulting her. The players strenuously denied the charges, and subsequent DNA tests have turned up negative. The event was heavily overladen with racial tension; the lacrosse players were almost all white while the two strippers were black. It also had a Baroque twist. Two hours or so after the alleged rape, a partygoer sent an e-mail saying that he wanted to lure more strippers to his room in order to kill and skin them.

Or take Mr Wolfe's last-but-one novel, “A Man in Full” (1998). The book opens with a lavish description of a quail hunt among the Georgia *nouveaux riches*. Many reviewers found the satire as over the top as the prose style (“Quail! The aristocrat of American wild game! It was what the grouse and the pheasant were in England and Scotland and Europe—only better!”). But it is impossible to read that scene today without finding it a bit tame. Why didn't Mr Wolfe include a major Republican politician? Why didn't he get the politician to shoot an elderly

lawyer in the face—and then try to hush the whole matter up?

Or take his first novel, “The Bonfire of the Vanities” (1987). This has survived the reality test much better than the other two books. But hardly a week goes by without somebody coming along and trying to outdo one of Bonfire's characters. “Bonfire” introduced the world to Peter Fallow, a tabloid journalist who had turned freeloading into a career. Last week, the New York *Daily News* disclosed that Jared Paul Stern, a gossip columnist for the *New York Post*, recently solicited $220,000 from a billionaire investor, Ron Burkle, in return for a year's “protection” against damaging items appearing in the paper's Page Six column.

“Bonfire” also introduced the world to the Reverend Bacon, a black politician who uses any excuse to engage in agitprop and race-baiting. Two weeks ago, Cynthia McKinney, a black congresswoman from Georgia, got into an altercation with a Capitol Hill police officer: he tried to stop her from entering the building because she didn't have the right ID and she allegedly responded by hitting him with a cell-phone. Instead of apologising she organised an anti-racist rally at Howard University, complete with cameo appearances by Harry Belafonte and Danny Glover, to denounce the “inappropriate touching and stopping of me—a female, black, progressive congresswoman.”

The inadequacy of fiction

Mr Wolfe is not alone. The best of the would-be Zolas to join Mr Wolfe in trying to reclaim America as “literary property” is Christopher Buckley, the son of William Buckley, the founder of the modern conservative movement and long-time chronicler of Washington, DC. The younger Mr Buckley recently hit the literary equivalent of the jackpot. Not only has Hollywood turned one of his novels, “Thank You for Smoking” into a film; it comes out at a time when the Abramoff affair has focused everyone's attention on the lobbying industry.

But it is hard not to watch the film without feeling let down. It is amusing to see the hero labouring on behalf of the tobacco industry and lunching with his “merchants of death”, lobbyists from the alcohol and firearms industries. But this is tame stuff compared with what Mr Abramoff got up to. He not only bilked Indian tribes of tens of millions of dollars, but got evangelical Christians to help him in the bilking.

This is not a vote in favour of the sort of literary navel-gazing that Mr Wolfe condemned. But it is a warning that it is almost impossible to outdo reality in a country as richly bizarre as the United States. Perhaps writers should leave those unfinished novels locked up in the drawer—and content themselves instead with the humble craft of journalism.

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Correction: Chicago

Apr 12th 2006
From The Economist print edition

In our survey of Chicago (March 18th), we included the University of Pennsylvania, instead of Penn State, as a member of the Committee on Institutional Co-operation. And the statement that "Chicago has more Hispanics than any other city but Los Angeles" should have read, "Chicago has more Hispanics than any city but New York and Los Angeles". Sorry. These errors have been corrected online

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Writer-intern

Apr 12th 2006
From The Economist print edition

The Economist's office in Washington, DC, seeks a writer-intern to help with coverage in the four months up to this November's elections. Experience unimportant, pay negligible. Please send a CV and a sample article to Washingtonintern@economist.com.

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Latin America

The return of populism

Apr 12th 2006
From The Economist print edition

A much-touted move to the left masks something more complex: the rebirth of an influential Latin American political tradition

Hulton

LATIN AMERICA, it is widely asserted, is moving to the left. The recent election victories of Evo Morales in Bolivia, of Chile's Michelle Bachelet, and of Ollanta Humala in the first round of Peru's presidential ballot (see article) are seen as forming part of a seamless web of leftism which also envelops Hugo Chávez in Venezuela, Brazil's Luiz Inácio Lula da Silva, Argentina's Néstor Kirchner and Andrés Manuel López Obrador, the front-runner in Mexico's presidential election. But this glib formula lumps together some strange bedfellows and fails to capture what is really changing in Latin America.

Some of the region's new or newish presidents are of the moderate, social-democratic left. They include Lula, Ms Bachelet in Chile, Óscar Arias in Costa Rica and Tabaré Vázquez in Uruguay. Broadly speaking, they stand for prudent macroeconomic policies and the retention of the liberalising reforms of the 1990s, but combined with better social policies.

Mr Chávez, Mr Kirchner, Mr López Obrador and, in Peru, both Mr Humala and his likely rival in a run-off ballot, Alan García, belong in a second category. Albeit in different ways and to different degrees, all correspond to the Latin American tradition of populism. So, in some respects, does Mr Morales in Bolivia. He is often portrayed as an indigenous leader. Yet as a young man he left his Andean-Indian village for the coca-growing region of the Chapare. His politics are those of a *mestizo* (mixed-race) trade-union leader.

“Populism” is a slippery, elusive concept. But it is central to understanding what is happening in the region. One of its many difficulties is that it is often used as a term of abuse. In many parts of the world, “populist” is loosely used to describe a politician who seeks popularity through means disparaged as appealing to the baser instincts of voters.

But populism does have a more precise set of meanings—though these vary from place to place. In 19th-century Russia, populists were middle-class intellectuals who embraced peasant communalism as an antidote to Western liberalism. In France, politicians from Pierre Poujade in the 1950s to Jean-Marie Le Pen have championed the “little man”, especially farmers and small shopkeepers, against big corporations, unions and foreigners.

In the United States, too, populism had rural roots, in the prairies of the Midwest. In the 1890s, the People's Party campaigned against what it saw as the grip of urban cartels over the economy. This cause reached its zenith in the 1896 presidential election, when the populists backed the campaign of William Jennings Bryan, a Democratic crusader against the gold standard.

Huey Long, the governor of Louisiana in 1928-32, was another populist. He campaigned against Standard Oil and

other big companies, ramped up taxes and state social spending, and was accused of dictatorial tendencies for building a ruthless political machine.

But it is in Latin America where populism has had the greatest and most enduring influence. As in Russia and the United States, it began as an attempt to ameliorate the social dislocations caused by capitalism. In Latin America it became an urban movement. Its heyday was from the 1920s to the 1960s, as industrialisation and the growth of cities got under way in the region. It was the means by which the urban masses—the middle and working classes—were brought into the political system.

In Europe, that job was done by social-democratic parties. In Latin America, where trade unions were weaker, it was accomplished by the classic populist leaders. They included Getulio Vargas, who ruled Brazil in various guises in 1930-45 and 1950-54; Juan Perón in Argentina (pictured above) and his second wife, Eva Duarte; and Victor Paz Estenssoro, the leader of Bolivia's national revolution of 1952. They differed from socialists or conservatives in forging multi-class alliances.

Give me a balcony

Typically, their leadership was charismatic. They were great orators or, if you prefer, demagogues (“Give me a balcony and I will become president,” said José Maria Velasco, Ecuador's most prominent populist, who was five times elected president and four times overthrown by the army). Like Huey Long, Vargas and Perón used the new instrument of radio to reach the masses. Mr Chávez's “Bolivarian revolution” relies heavily on his skills as a communicator, exercised every Sunday in his four-hour television programme.

Some of the populists, such as Victor Raúl Haya de la Torre, the founder of Peru's APRA party, and William Jennings Bryan, relied on religious imagery or techniques. (“You shall not crucify mankind on a cross of gold,” Bryan preached.) A recent biography of Mr Chávez remarks on his similarity to a televangelist.

AP

Chávez treads in Perón's footsteps

The populist leaders sought a direct bond with their mass following. They led personal movements rather than well-organised parties. Argentina's dominant political organisation bears Perón's name. Take Mr Chávez out of the “Bolivarian revolution” and there would be nothing left. Contrast that with Ms Bachelet, who presides over a stable four-party coalition, or Lula, whose Workers' Party has up to 800,000 dues-paying members.

The populists saw elections as the route to power, and pushed successfully to expand the franchise. But they also relied on mass mobilisation—on getting their followers out into the streets. They were often less than democratic in their exercise of power: they blurred the distinction between leader, party, government and state. Perón, for example, packed the judiciary, put his own people in charge of trade unions, and rigged his re-election in 1950. Mr Chávez used a constituent assembly to gain control of all the institutions of state. Both Mr Morales and Mr Humala have promised similar assemblies.

Not coincidentally, many of the populists have been military officers. That goes for Vargas, Perón and Lázaro Cardenas, Mexico's president from 1934 to 1940, who nationalised foreign oil companies and handed land to peasants. Mr Chávez and Mr Humala are retired lieutenant-colonels. Part of their appeal is that of the military *caudillo*, or strongman, who promises to deliver justice for the “people” by firm measures against the “exploiters”. Some scholars distinguish between military populists and civilians such as Haya de la Torre and Paz Estenssoro, whom they see as “national revolutionaries” closer to social democracy.

But there are many common threads. One is nationalism. The populists championed national culture against foreign influences. They harked back to forgotten figures from their country's past. In many respects, they were nation-builders.

While their preaching was often anti-capitalist, they made deals with some capitalists. They rallied their followers against two rhetorical enemies: the “oligarchy” of rural landlords and foreign “imperialists”. They supported industry and a bigger role for the state in the economy, and they granted social benefits to workers. They often paid for this by printing money.

Though populists were not alone in favouring inflationary finance, they were particularly identified with it. Some commentary on populism has emphasised this aspect. In their book “The Macroeconomics of Populism”, Rudiger Dornbusch and Sebastian Edwards characterise “economic populism” as involving a dash for growth and income redistribution while ignoring inflation, deficit finance and other risks.

Such policies were pursued not just by populists of the past, but by Mr García, Peru's president in 1985-90. In a milder form, they are being followed by Mr Kirchner, Argentina's Peronist president. Mr Chávez has been rescued from deficit financing only by Venezuela's oil windfall.

Populist economics was adopted, too, by Salvador Allende, Chile's Socialist president of 1970-73, and Nicaragua's Sandinistas. That has led many observers to use “populist” and “leftist” interchangeably—a mistake that led foreign investors to lose money when they panicked unduly when Lula won Brazil's election in 2002.

More Mussolini than Marx

In fact, there is nothing inherently left-wing about populism. Some populist leaders were closer to fascism: Perón lived as an exile in Franco's Spain for 18 years. Many favoured corporatism—the organisation of society by functional groups, rather than the individual rights and pluralism of liberal democracy.

Other writers have seen populism as a technique of political leadership more than an ideology. They have applied the term to such free-market conservatives as Peru's Alberto Fujimori and Argentina's Carlos Menem who, in different ways, sidestepped interest-groups and made direct appeals to the masses. It is not clear whether Mr Humala, if elected in a run-off, would fall into this category—or try to mimic Mr Chávez.

Populism is full of contradictions. It is above all anti-elitist, but creates new elites. It claims to favour ordinary people against oligarchs. But as Messrs Dornbusch and Edwards pointed out, “at the end of every populist experiment real wages are lower than they were at the beginning.” Populism brought mass politics to Latin America, but its relationship to democracy is ambivalent. Populists crusade against corruption, but often engender more.

In the 1960s, populism seemed to fade away in Latin America, squeezed by Marxism, Christian democracy and military dictatorship. Its current revival shows that it is deeply rooted in the region's political culture. But it also involves some new elements. The new crop of populist leaders rely partly on the politics of ethnic identity: Mr Chávez and Mr Humala are both *mestizos*. Their coalitions are based on the poor, both urban and rural, and those labouring in the informal economy. They champion those discomfited by globalisation rather than industrialisation.

One big reason for populism's persistence is the extreme inequality in the region. That reduces the appeal of incremental reform and increases that of messianic leaders who promise a new world. Yet populism has done little to reduce income inequality.

AP

...and Humala hopes to follow

A second driver of populism has been Latin America's wealth of natural resources. Many Latin Americans believe that their countries are rich, whereas in truth they are not. Populists blame poverty on corruption, on a grasping oligarchy or, nowadays, on multinational oil or mining companies. That often plays well at the ballot box. But it is a misdiagnosis. Countries develop through a mixture of the right policies and the right institutions. Whatever their past achievements, the populists are leading Latin America down a blind alley.

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The Panama Canal

Feel the width

Apr 12th 2006 | PANAMA CITY
From The Economist print edition

A long-awaited expansion plan

IT IS more than 90 years old, and the Panama Canal is showing its age. It is clogged with traffic, and too narrow to take a rising number of the world's ships. So Panama's government wants to widen the canal. It has promised to consult Panamanians before doing so—and their approval cannot be taken for granted.

After five years and more than 120 technical studies, the Panama Canal Authority was expected to release its master plan, after several delays, on April 20th. This calls for building a new series of wider and deeper locks. The project would cost at least $5 billion and take seven years.

The case for expansion rests chiefly on the trend towards bigger container ships. The largest are up to 50% wider than the 32.3 metre (106 feet) “Panamax” ships able to squeeze through the locks. A second reason is that the canal already operates at 93% of capacity, with up to 14,000 transits per year. In Panama Bay, a queue of a dozen or so ships is always in view. If trade continues to grow at its current rate, the canal will be clogged by 2012 at the latest.

But widening the canal is controversial, for both economic and environmental reasons. Under the constitution, the plan must be put to a referendum, which is likely to be held in August or September. An opinion poll this month showed 19% against, and 25% still undecided.

Panama's president, Martín Torrijos, has been moving to secure the scheme's approval. Mr Torrijos, whose father Omar negotiated the 1977 treaty that handed control of the waterway from the United States to Panama, is popular. He has given out property titles to residents of the land abutting the canal. He has also promised that no reservoirs will be built to supply the new locks with water, dispelling farmers' fears of having to move. Instead, the expansion project includes water-saving basins to hold and recycle 60% of the water required for each transit.

The authority insists that the project should pay for itself. But the enthusiasm of shippers for widening may be tested by higher tolls. “Of course if they do it we have to pay,” says Captain Meijiang Cai, of China Ocean Shipping Company. Other shippers say that if tolls go too high, they will seek alternative routes.

Some locals question the logic behind the widening. A report by four eminent Panamanians claimed that demand is insufficient to justify the expenditure. The expansion will be profitable if it costs less than $5.7 billion, according to José Barrios, the authority's finance chief. As well as higher tolls, the project will be financed by the securitisation of future cash flows, drawing down reserves and outside loans, he has said.

The cost of widening will be closely scrutinised by politicians as well as shippers. Cost overruns are difficult to predict. The flow of canal revenue to the government might be cut if the authority had also to service debt. Another risk is of increased competition. Mexico has ambitious plans for a railway linking expanded container ports on either side of the Isthmus of Tehuantepec.

But when the referendum comes, it may be decided by other factors. Some Panamanians are disgruntled at Mr Torrijos's social-security and fiscal reforms. On the other hand, the project would provide some 10,000 construction jobs. And the idea of a bigger, better Panama Canal will strike a nationalist chord among some voters. That may lock in a yes vote.

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Peru's election

An unattractive choice

Apr 12th 2006 | LIMA
From The Economist print edition

A nationalist outsider or a failed president

THEY were offered a choice of 20 different presidential candidates, but Peru's voters did not seem particularly impressed by any of them. An election on April 9th was won by Ollanta Humala, a former army officer at the head of an improvised nationalist party, but with only 31% of the vote. He will face a run-off ballot in late May or early June. So close was the battle for second place that his opponent will not be confirmed for at least a week. But it seemed almost certain to be Alan García, a former president, with some 25%, just ahead of Lourdes Flores, a conservative.

That would mean Peru faces a choice between two versions of populism. Mr Humala, who staged a brief military rebellion in 2000, had no previous political experience. He promised a firm hand and a nationalist economic policy, together with a bigger role for the state and curbs on foreign investment. Mr García steered a middle course between Ms Flores's backing for free-market policies and the leap into the unknown embodied by Mr Humala.

The run-off may well be tight. Mr García would have to struggle against memories of his disastrous presidency in 1985-90, when Peru suffered hyperinflation, economic collapse and guerrilla violence. But whereas Mr García has been rising in the opinion polls, Mr Humala's support peaked in mid-March. He has been accused of abuses when commanding troops against the Shining Path guerrillas. He is also alleged to have links with Vladimiro Montesinos, the jailed spy chief who ran a massive corruption scheme during the presidency of Alberto Fujimori in the 1990s.

Whoever wins will face a divided Congress. Mr Humala's supporters look set for a third of the 120 seats, ahead of Mr García's APRA with some 35 and a score for Ms Flores's party. Mr Fujimori, who is in custody in Chile pending extradition to face criminal charges, will have some supporters in Congress. His daughter, Keiko, won more votes than any other congressional candidate. She is likely to offer her support to the winner in return for a pardon for her father.

The challenge facing the winner will be to sustain Peru's rapid economic growth while improving public services. Mr Humala benefited from the unpopularity of the outgoing president, Alejandro Toledo, widely seen as a self-serving figure who failed to root out political graft or take steps to alleviate widespread poverty.

Mr Toledo wants Peru's outgoing Congress to approve a controversial free-trade agreement with the United States which Mr Humala says he opposes. If Mr Toledo persists in this attempt to bypass the people's will, he may just tip the second round to Mr Humala.

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China and America

Mr Hu finally goes to Washington

Apr 12th 2006 | BEIJING
From The Economist print edition

Reuters

A state visit in Chinese eyes, but not in America's. Don't expect a love-in

“VERY positive and complex.” That is how George Bush ambivalently characterised his country's relations with China this week. When his counterpart, Hu Jintao, pays his first presidential visit to the White House on April 20th, Mr Bush will struggle to manage a relationship that many in Washington view more simply as negative. The two leaders are anxious to avoid letting their disputes seriously damage ties. But much will depend on how they manage opinion at home.

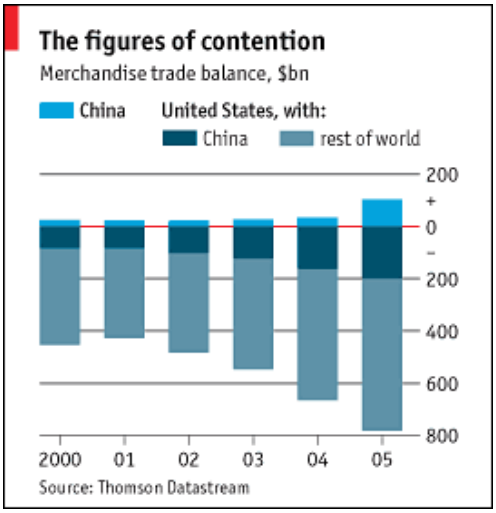
This is a particularly sensitive time. The approach of America's mid-term elections in November is encouraging both Democrats and Republicans to play to voters' concerns about the threat China's rapid economic rise is said to pose to American jobs. The administration wants China to help check the nuclear ambitions of Iran and North Korea. China wants America to restrain Taiwan, where the approach of presidential elections in 2008 is already threatening to whip up new turbulence in the island's uneasy relationship with the mainland. Neither side thinks the other is delivering enough.

Mr Hu is especially keen for this visit, his first to Washington since he became Communist Party chief in 2002 and president in 2003, to establish his credentials at home as a statesman. He should have gone last September, but the trip was blown off course by Hurricane Katrina. However, Mr Bush, anxious not to appear too friendly with a country that so many Americans view with suspicion, is not laying out the full red carpet. Chinese officials insist on calling this a state visit. The White House is not using that level of protocol. State visits involve a formal dinner; Mr Hu will only be given lunch.

Such niceties are important to Mr Hu. Like Mr Bush, he is under pressure at home. The party is beginning to gear up for its five-yearly congress next year and Mr Hu needs all the authority he can muster to ensure that he succeeds in placing his protégés in key positions. As in America's Congress, there is growing anxiety in China about the impact of globalisation. Mr Hu wants to look strong in the presence of Mr Bush. This means not appearing to capitulate to America's trade demands.

But Mr Hu is making conciliatory gestures. China does not want a trade war that could damage its biggest overseas market. To help reduce America's record trade deficit with China, valued by the Americans at $202 billion last year (see chart), a Chinese delegation last week embarked on a buying tour in America that is expected to result in some $15 billion-worth of deals. As part of this, on April 11th, China signed a deal agreeing to buy 80 Boeing planes worth $4.6 billion, and said it would resume buying American beef, banned since 2003 because of mad-cow fears.

In response to American concerns about rampant violations of intellectual-property rights in China, the Chinese authorities have staged a show of resolve in recent weeks. Some shops in Beijing selling pirated DVDs have been closed. Banners have appeared on the streets urging citizens not to buy them. In late March the government ordered computer manufacturers to pre-load licensed operating-system software onto machines to prevent retailers using pirated versions.



Such shows of goodwill are unlikely to have much impact. Mr Bush has urged Mr Hu to use his visit to make some announcement on China's undervalued currency. But there is little likelihood that Mr Hu will say anything important about this. In recent weeks, China has allowed the yuan to appreciate a little more quickly, but shows no desire to take the big steps demanded by those American politicians who argue that it is as much as 40% undervalued. Mr Hu's primary concern is about stability at home, and a rapid revaluation would threaten this. Fortunately for him, Mr Bush, unlike some members of Congress, appears disinclined to take up cudgels. The release of a Treasury report, which could accuse China of manipulating its currency, has been delayed until after the visitor leaves. Even in Congress cooler heads might still prevail. Last month two senators withdrew a bill that threatened 27.5% tariffs on Chinese imports if China failed to revalue its currency by a large margin.

Other fence-mending exercises are under way. Mr Hu's officials have responded with a show of enthusiasm to the Bush administration's suggestions, first made last year, that China's role in the world should be one of “responsible stakeholder”. China likes to draw attention to its mediating role in efforts to persuade North Korea to give up its nuclear-weapons programme. It tried to take advantage of a private forum in Tokyo this week, which senior North Korean and American officials attended, to persuade North Korea to resume negotiations. But these efforts appeared unsuccessful. Likewise, China says the Iranian nuclear dispute should be resolved without sanctions or force. But it has not publicly threatened to use its UN veto to block any American attempt to escalate pressure on Iran.

In recent months, China has even shown tentative signs of wanting progress in talks with representatives of the Dalai Lama and of the Vatican. Few expect breakthroughs soon. But in a gesture clearly aimed at pleasing Mr Bush, China last month allowed a Tibetan nun who had been imprisoned for 14 years for her outspoken support of the Dalai Lama to go to America for medical treatment. Still, Mr Hu has shown no real willingness to ease his suppression of dissent. Worried that rapid economic and social change could trigger instability, he is tightening controls. Mr Bush recently described China as a “big opportunity for democracy”. On this, Mr Hu will disappoint him.

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Chinese names

Farewell the red soldiers

Apr 12th 2006 | BEIJING
From The Economist print edition

Character limitations

LONG gone are the days when Chinese parents often chose such names as Hongbing (Red Soldier), Aihua (Love China) or even Kangmei (Anti America) for their children. They are still limited by the custom of using no more than two Chinese characters for given names. But growing numbers now prefer to choose highly obscure ones to avoid the common phenomenon, given a paucity of surnames, of bestowing a name already used by countless others. The police, however, have plans to stop this.

The problem is that commonly used software for inputting Chinese characters, including that used by police departments responsible for issuing identity cards (which every Chinese must carry), cannot handle very rare characters. In China, the usual way of writing a character on a computer is to enter its pronunciation using Roman letters, then choose from a list of possible options (most characters have many homonyms). A rare character might not show up on the list.

The tens of millions of Chinese with rare characters in their names have long suffered the consequences, experiencing problems with everything from buying airline tickets to opening bank accounts. A Chinese graduate student says none of her examination certificates has ever recorded her full name, Chen Minqian. The rare “min” character, a poetical term for “autumn”, has been represented by zeros or asterisks. Many computers once had problems generating the name of Zhu Rongji, China's former prime minister, thanks to his “rong” character, which is an unusual variant of a character meaning “smelt”.

For the police all this has become a particular problem with the introduction in 2004 of new identity cards with embedded microchips. Rather than getting better software, a senior police official has announced that the answer is to ban problematic characters.

Reaction has not been entirely positive. One Chinese newspaper complained that the new regulation would “simply be for the convenience of the police” rather than for the good of the public. A government adviser was quoted in another as saying that the “right of citizens to use characters freely” should be respected. The “old hundred surnames”, as ordinary citizens are often described in Chinese, would agree.

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Nepal

Days of rage

Apr 12th 2006 | KATHMANDU
From The Economist print edition

Worse and worse

THE scale and persistence of the anti-government demonstrations that swept Nepal this week took many observers by surprise. Defying daytime curfew orders and police violence, thousands of protesters rallied and rioted in Kathmandu and other cities demanding an end to absolute monarchy.

Among those caught off guard was the regime itself, which is divided between moderates calling for compromise with the opposition parties and a majority of hardliners, grouped around the home minister, Kamal Thapa, who are bent on retaining control at any cost. Attention was this week directed towards King Gyanendra's traditional speech on the Nepali new year, April 14th.

The opposition coalition of seven political parties, which has recently entered a loose alliance with the powerful Maoist rebels, initially called for a four-day general strike and demonstrations to mark the anniversary of an earlier democratic revolution in 1990. The government responded with the pre-emptive arrest of opponents, curfew orders and the cutting of mobile-phone services. Security forces were deployed in huge numbers.

Yet, unlike during a similar confrontation in January, the protests went ahead. While previous demonstrations have mostly been limited to opposition-party members, this time support has come from ordinary citizens, professional groups, and, in an echo of 1990, civil servants and staff at state-owned banks and public utilities. And while recent demonstrations in the capital have been limited to a few hot-spots, a tour of the city's largely deserted streets now reveals broken bricks and burnt tyres in most neighbourhoods.

There are points of comparison with the 1990 uprising. According to a recent report by the International Crisis Group, a Brussels-based think-tank, by bringing back into power some key actors from that period, the palace has set the scene for a replay. The home minister and the chief of armed police are among eight leading members of the current regime who were blamed by an independent commission for the shooting of 60 demonstrators in 1990, though no charges were brought.

The army has been deployed alongside the police during the disturbances, but it has been the police, mostly using tear-gas, plastic bullets and bamboo clubs, who have taken the lead. Any demonstrator who is caught can expect a severe beating. Three people were shot dead by the security forces in provincial towns last weekend and several were shot and injured in Kathmandu on April 11th.

The opposition, buoyed by its success, has extended its general strike indefinitely, but there are dangers ahead for the political parties. According to Bharat Mohan Adhikari, an opposition leader, the movement has taken on a life of its own, with demonstrations taking place spontaneously. While some events, such as a large and orderly gathering in the Kathmandu suburb of Kirtipur, have been principled and impressive, in other places gangs of youths have burned vehicles and intimidated the public. For the parties, maintaining control is a serious problem.

Few people in Kathmandu expect the government to fall soon. Unlike in 1990, the link with the Maoists makes any political solution much harder to find. But the regime now looks badly wounded.

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India's revolutionaries

The east is red

Apr 12th 2006 | DELHI
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And so is the centre

FOR almost 40 years, increasingly large areas of India's remote rural hinterland have been disrupted by Maoist-inspired rebel armies, known as Naxalites, who oppose conventional government. In the early years they were periodically crushed in the states of West Bengal and Andhra Pradesh (AP). But over the past four years inadequate policing and lethargic governments have enabled them to increase. Last year, about 900 people were killed in Naxalite-inspired clashes. The number for the first three months of this year is nearly 40% up on the same period last year.

Five months ago, Naxalites invaded a town in the state of Bihar and freed more than 350 prisoners from jail. In February, 26 villagers were killed by a landmine in Chhattisgarh as they returned from an anti-Naxalite meeting. And on April 9th main-line railway tracks were blown up in Bihar. The government admits that 76 of India's 602 districts are badly affected, though the Asian Centre for Human Rights says Naxalites have influence in 165 districts, stretching from the border with Nepal down through eastern and central India to the edge of Karnataka in the south.

V.K. Duggal, the interior ministry's top civil servant, echoed his ministry's usual sanguine line a week ago when he called the situation “by and large under control”. Manmohan Singh, India's prime minister, seems to disagree. On April 13th he was due to address a meeting of chief ministers of 13 affected states about how to tackle the problem. At a similar meeting a year ago, he said extremism had “huge societal costs”, impairing investment, employment and education.

The impact on the economy and on foreign investment is likely to grow. Aluminium companies have for many years steered away from the bauxite mining areas of AP because of the risks. Contractors on India's $40 billion road-building programme have been disrupted by attacks and threats, especially in Bihar. Now Naxalite and Marxist groups have threatened to target mining operations in the state of Jharkhand's mineral-rich areas, where Rotterdam-based Mittal Steel, India's Tata Steel and others have drawn up plans for multi-billion dollar plants.

The Naxalites are a complex group. They take their name from Naxalbari, a West Bengal village where the movement was founded in 1967. They were wiped out there within eight years by tough police action, and next surfaced in the 1980s as the People's War Group (PWG) in an independence-minded area of AP called Telugana. Conflict between castes in Bihar led to the creation of the Maoist Communist Centre in the mid-1980s. This then merged two years ago with the PWG and started to build loose links with neighbouring Nepal, where Maoist rebels now control significant areas of the country, and with less significant groups in Bangladesh and Sri Lanka.

The movement thrives in remote, often densely forested areas, especially where tribal people risk losing land to development projects. “These areas have fallen off the map of governance as economic liberalisation has focused government attention elsewhere,” says Ajai Sahni, director of the Delhi-based Institute of Conflict Management. Lack of international concern has encouraged government lethargy. Mr Singh wants to tackle this with a national

policy that forces individual states to introduce effective policing, plus social-policy initiatives specially aimed at tribal areas. But the Naxalities keep growing stronger.

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Thailand

Whatever next?

Apr 12th 2006
From The Economist print edition

Many problems, no solution in sight

ONE week after Thaksin Shinawatra announced he was standing down as prime minister, following big street protests demanding his resignation, Thailand is in political limbo. There is as yet no clear sign of when or how the country will be able to convene its parliament and form a government. Mr Thaksin's snap election, held on April 2nd, failed to produce valid results in around one-tenth of the 400 constituencies, partly because many people selected the “no vote” box on their ballot papers after the main opposition parties boycotted the election.

There is a plan, of sorts: the electoral commission intends to re-run the voting in constituencies where this is needed, on April 23rd. This could then allow the new parliament to convene by May 2nd, as the constitution requires. A new government, led by a senior figure from Mr Thaksin's Thai Rak Thai party, would then fulfil the promise he made to the opposition, to create a neutral panel to reform the constitution (though it is as yet unclear which bits of it are supposed to need fixing). Some time next year, once the reforms are passed, a new election would be held, with the opposition taking part. Normal democratic politics would then resume.

While possible, there are few reasons to expect this to happen. An avalanche of complaints has been filed by opposition groups, calling on the courts and the electoral commission to invalidate individual constituencies' results, or the re-run ballots, or indeed the entire April 2nd vote. The opposition is still petitioning King Bhumibol to use his constitutional powers to appoint a neutral, interim government to resolve the impasse.

Complaints are being filed against the electoral commission itself, especially over its decision to let new candidates register for the re-runs. Even though it did so, there will still be some constituencies in which, once again, only a Thai Rak Thai candidate will stand. Some are in southern provinces where opposition to Mr Thaksin is strong. So it seems a fair bet that not all the re-runs—assuming they go ahead—will produce valid results. Even if they did, there is yet another likely obstacle to convening parliament: as things stand, Thai Rak Thai seems to have won all 100 party-list seats in the 500-seat lower house. However, one candidate on this list quit just before the election to become a monk, leaving his seat vacant. Some legal loophole may be found to allow an incomplete parliament to convene, but this might only inflame the situation further.

The opposition parties and the street-protest movement, the People's Alliance for Democracy (PAD), are vigilant for signs that Mr Thaksin has not really stepped aside and is still running things from behind the scenes. Their big demonstrations have stopped for the moment but could resume if Mr Thaksin or his acting successor, Chidchai Vanasathidya, take provocative actions. Perhaps unwisely, Mr Chidchai said this week that arrest warrants would soon be issued for the PAD's leaders. If that happens, it might well bring the group's members back on to Bangkok's streets. Given this mess, the best solution would surely be a fresh general election within a few months, with the opposition participating in return for guarantees on constitutional reforms. But can Thailand reach that destination from where it is now? It doesn't look like it.

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Afghanistan

Bleak courthouse

Apr 12th 2006 | KABUL
From The Economist print edition

Where justice still leans on the Koran and the whip

AP

Abandon hope, all ye who enter here

Get article background

A DICKENSIAN mood pervades Kabul's legal world. Labyrinthine corridors give onto rooms stacked to bursting with dusty ledgers and hand-scrawled documents. With the business of the judiciary spread over 31 departments, case-files have a habit of being rarely, or never, sighted again once they enter the system.

In the courtrooms, things are little more orderly. During one recent trial, Western journalists watched as the judge frequently interrupted the flow of evidence to chatter on his mobile phone and smoke cigarettes out of the window. The defence counsel's faltering performance, officials explained, was due to the fact he couldn't read very well.

Afghan justice received poor reviews last month, after it emerged that a convert to Christianity, Abdul Rehman, faced a death sentence for apostasy. The case was dismissed on a technicality, and Mr Rehman bundled out of the country. Yet the incident drew attention to a reconstruction effort that is skimpier than Afghanistan's foreign sponsors care to admit. This week, America's Council on Foreign Relations, a think-tank, identified one problem as “a corrupt and ineffective administration without resources”.

The justice system is extremely corrupt: unsurprising, since judges earn $60 a month, much less than the rent for a modest flat in Kabul. It is also ineffective; most judges are Islamic clerics with little clue about the secular laws they are supposed to enforce. Some are barely literate, and little helped by generally awful police.

That, cynics quip, is what you get for giving Italy—a nation not famed for its justice system—the lead in reforming Afghanistan's, though much of the problem stems from constant bickering between the various international partners involved. In fairness, Italy has not been wholly useless: it has retrained 450 judges and prosecutors; but this has so far made little improvement. A year's training has also been added to regular law-degree courses. But Afghanistan's judges are mostly graduates from *sharia* faculties.

In addition, over the past four years, Afghanistan has acquired new laws, including many aimed at securing a pleasant business-friendly society where human rights are upheld. A new anti-narcotics law was a typical example; drafted by Western lawyers, it runs to 55 detailed pages, which few Afghan legal practitioners can master, much less apply.

Outside Afghanistan's main cities, where there are few police and fewer functioning courts, customary justice is dispensed by tribal and religious leaders. These authorities sometimes order executions, but more often make confirmed miscreants compensate victims with land, animals, money or women. Otherwise, aggrieved Afghans settle their scores unilaterally. The country's well-armed drug barons are rarely troubled by any law—a state of impunity that, it is promised, will be threatened by the opening of a dedicated counter-narcotics court, with

specially trained staff, later this year.

A major obstacle to reform lies in Afghanistan's jarring mix of Western-style secular and Islamic laws. On the one hand, the brave new constitution, drafted under the gaze of foreigners and introduced in 2004, promises freedoms of speech and religion, and sexual equality. On the other, conservative mullah-judges cite an article declaring that in Afghanistan “no law can be contrary to the beliefs and provisions of the sacred religion of Islam.” Given that, in Islam, death is the prescribed punishment for apostasy, this put Mr Rehman in a decidedly sticky position. The clause is also a disincentive for female witnesses, whose testimony is worth, in Islamic law, half that of men.

Other Islamic states have found ways around *sharia*'s prescriptions. In Malaysia, *sharia* courts take the view that apostasy is an impossibility: those accused of it are subject to remedial education and other punishments but not actually executed. Afghanistan's judges seem tougher. Since the downfall of the Taliban, the Supreme Court has been controlled by hardline clerics, led by the septuagenarian Fazul Hadi Shinwari, whose office is adorned only with a Koran and a whip. He said recently that women could not become Supreme Court justices because they menstruate, rendering them unfit to handle the holy book for several days each month. More cheerfully, several more reform-inclined lawyers have been nominated to join the court; and, for believers in the reforming power of technology, Mr Shinwari has acquired an e-mail address.

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Iran, Iraq and America

In the club

Apr 12th 2006 | TEHRAN
From The Economist print edition

Now that Iran has enriched uranium, can America talk to it about Iraq?

"I AM officially announcing that Iran has joined...those countries which have nuclear technology," said Mahmoud Ahmadinejad, Iran's president, on April 11th. "This is the result of the Iranian nation's resistance." By enriching a quantity of uranium at its pilot plant at Natanz, in defiance of pleas from the United Nations Security Council, Iran this week strengthened suspicions that it is trying to build a nuclear weapon and shifted its confrontation with America into a higher gear. Even if it has achieved only 3.5% enrichment as it claims—far short of the level required to power a bomb—it marks a significant technical breakthrough. It was a step, said both the Americans and the Russians, in the wrong direction.

Oddly enough, Iran's announcement came amid a flurry of speculation that America and Iran were talking to each other. Indeed, not since 2002, when domestic infighting scotched an Iranian effort to negotiate secretly with the United States, has Tehran been so abuzz with talk about talks. Few believe official claims that Muhammad Nahavandian's recent trip to Washington, DC, was "personal". As a member of the Supreme National Security Council (SNSC) of a country George Bush regards as a major threat to world peace, it may be wondered how Mr Nahavandian breezed through American immigration.

Other SNSC men are standing by to conduct talks, of a much more open nature, with American officials in Baghdad. These would be about ending sectarian violence in Iraq. But the officials may have to continue to stand by: the likelihood of such meetings happening, let alone achieving anything, is receding amid fiery speculation that America is planning military attacks on Iran if diplomacy fails to persuade it to stop its nuclear production.

Ali Larijani, the head of the SNSC, joined President Bush in pooh-poohing an article in the current *New Yorker* by Seymour Hersh, an investigative journalist, suggesting that America is considering the use of nuclear weapons to destroy Iran's underground nuclear facilities. Mr Larijani depicted such "psychological warfare" as evidence of America's "impotence" in the face of Iran's determination to produce nuclear fuel. Bold talk, but Iran's nervousness was revealed by its enthusiasm in taking up last month's request by Abdulaziz al-Hakim, an Iraqi Shia leader with good ties to his Iranian co-religionists, that it accept America's long-standing offer of talks aimed exclusively at trying to end the violence in Iraq. But the Americans themselves now seem cooler towards the idea of any talks—at least until the current, fractious efforts to form a government in Iraq have ended. A State Department official accused the Iranians of talking up negotiations only because "they find themselves under the scrutiny...of the international community concerning their nuclear activities." Embarrassed, the Iranians are now backtracking, with the government insisting that it is in no hurry at all to talk.

Scant comfort, then, for those who long for an end to decades of American-Iranian enmity. The top American and Iranian envoys in Baghdad have already met "at least once", says a well-connected Western diplomat. Rumour has it that a senior Iranian negotiator has also visited Iraq. But there is no sign that Mr Bush is receptive to overtures aimed at detente. The administration recently secured Congress's approval to give $75m to Iranian opposition groups.

Convinced that Mr Bush intends to try to topple them, Iran's leaders do not disguise their pleasure at America's Iraqi travails. The mayhem in Iraq, they believe, acts as a brake on Mr Bush's ambitions in Iran. But the Iranians are not as pervasive or as pernicious an influence in Iraq as the United States—and some Sunni Arab countries, Egypt and Saudi Arabia in particular—say they are. A recent report by the International Crisis Group argues that such reports are exaggerated.

To be sure, the Iranians flaunt the good relations that they have had for many years with Mr Hakim's Supreme Council for Islamic Revolution in Iraq (SCIRI), and with the Dawa Party of the current embattled prime minister, Ibrahim al-Jaafari. They also get on with Iraq's (Kurdish) president, Jalal Talabani. Equally, few doubt that Iran's spies are numerous, and its tradesmen and charity workers diligent.

But Iran remains mistrusted by many Iraqis, including many of the Shias who fought in large numbers against their Iranian co-religionists during the Iran-Iraq war in the 1980s. It is doubtful, for instance, whether Iran, even if it wanted to, could put a stop to the anti-Sunni violence that is being perpetrated by SCIRI's associates. Nor does Mr Hakim, although he is a cleric and spent many years in exile in Iran, seek to replicate Iran's theocratic government. Privately, he is scathing about it.

All the same, a grey area surrounds the continuing failure of Iraq's main Sunni and Kurdish factions, backed in this instance by the United States, to persuade Mr Jaafari to stand down. Officials in Tehran disclaim Iranian involvement in government-building, but Hassan Kazemi Qomi, Iran's chargé d'affaires in Baghdad, confirms that Iran differs strongly from America about how much power Iraq's Shia groups should exercise.

Iran's support for Mr Jaafari has won it thanks of a sort from Muqtada al-Sadr, a prime-ministerial ally whose Mahdi Army has fought intermittently against the Americans. Iran finds the volatile cleric a useful squeeze on the influential (and Iranian-born) Ayatollah Ali al-Sistani, whose influence over Shia communities around the world is a source of chagrin to Iran's clerical elite. In January, Mr Sadr elliptically threatened to retaliate against American interests if the United States attacked Iran. He is said to have received Iranian arms. But his animus towards Persians is known; there is no trust on either side.

Iran's vulnerable demography—it has big Sunni Arab and Kurd populations on its borders with Iraq—militates against too overt an involvement in sectarian violence. The Iranians blamed recent bomb blasts in the partly Arab province of Khuzestan on Arab separatists pushing a militant Sunni agenda. If, as the Americans believe, Iran has helped Sunni militants to get into Iraq, this may be as much to avoid entanglements as to provoke them.

The Iranians will not be reassured by Mr Hersh's assertion that America has special forces within Iran. They have fears, shared by the Turks, that the Americans are egging on the Party for a Free Life in Kurdistan, an affiliate of the Kurdistan Workers' Party whose separatist struggle in Turkey recently came bloodily back to life. Last month at least three members of Iran's Revolutionary Guard were killed, apparently by members of the group.

It is hard to see how Mr Bush can secure Iran's co-operation in Iraq, for what that is worth, without offering concessions. But Mr Bush will not be keen to conciliate a hostile state that seems only to be accelerating its quest for nuclear weapons.

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Sudan

No help needed, thank you very much

Apr 12th 2006 | NAIROBI
From The Economist print edition

Sudanese obstruction is not the only problem the UN faces in Darfur

Get article background

THE United Nations' head of humanitarian aid, Jan Egeland, recently spent a day sitting in an airport in Uganda. He was waiting for permission to fly on a UN plane into neighbouring Sudan. When the necessary paperwork from the Sudanese government was not forthcoming, Mr Egeland hopped onto a commercial flight to Juba, in south Sudan. He intended to fly from there to Darfur, in west Sudan. His plan was for a symbolic overnight stay in a particularly nasty bit of Darfur —the vast desert region that has seen perhaps 300,000 people killed and more than 2m displaced in the last three years of fighting there.

But on a barge journey up the Nile from Juba, surrounded, he says, by naked Dinka herdsmen, Mr Egeland received a satellite call informing him that he was not welcome in Darfur. Pressed for an explanation, the Sudanese authorities argued that, as a Norwegian, he would be in danger in Darfur, ostensibly because Norwegian newspapers had reprinted the controversial Danish cartoons depicting Muhammad. Mr Egeland's trip, they pointed out, fell on a religious holiday; it was not a cancellation, they said, but a postponement.

A more likely explanation is that the Sudanese government was afraid of the haunting television images that might come out of Mr Egeland's trip. For Mr Egeland considers Sudan, and particularly Darfur, to be the world's worst humanitarian crisis, along with Congo. South Sudan is getting only a fraction of what it needs to rebuild after a peace agreement was signed last year between the government in Khartoum and the southern Sudanese rebels. Meanwhile, the obfuscating in Darfur shows how little the Sudanese government can be trusted to look after its own citizens there. Mr Egeland still has to give his report on Darfur to the UN Security Council on April 20th. “I will not mince my words,” he says. And there is the chance that he could yet call Sudan's bluff and attempt to return to Darfur in the coming months.

The Sudanese government is particularly unhappy about a proposal that would see the 7,000-strong African Union force in Darfur, which is widely regarded as ineffectual, replaced by a more robust UN deployment within a year. A doubling of troop numbers, with greater mobility and heavier weapons, could stop the growing number of attacks by rebels and the government-backed *janjaweed* militia.

That is all very well on paper. But senior UN officials privately admit that they cannot see where the required troops are going to come from. A UN force would probably need an African, Arab or at least a Muslim face to succeed. But traditional peacekeeping countries that fit the bill—including Nigeria, Jordan and Pakistan—are already stretched thin elsewhere. That, in part, explains America's enthusiasm for increased NATO support for a Darfur mission. The alliance has already provided some airlift capacity to the AU, and under an American proposal several hundred NATO advisers could be brought in to provide further logistical and intelligence support for whoever does take over.

Meanwhile, the latest round of talks between Darfur's various rebel groups and the Sudanese government has failed to produce a ceasefire agreement. Even if one does eventually emerge, new problems await any would-be peacekeepers. These go beyond enforcing whatever ceasefire is agreed and stopping the raids by Sudanese-backed forces into neighbouring Chad. There is also the question of how to provide some sort of sustainable life for Darfurians. This conflict started with poverty, water shortages and the scarcity of grazing for animals. It will not end without some solution for these ills.

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Congo

A tantalising wait for the vote

Apr 12th 2006 | KINSHASA
From The Economist print edition

Congo's first democratic elections in 40 years risk being marred by a boycott

ORIGINALLY due to be held on June 18th, Congo's first multi-party elections in 40 years have been postponed. Everyone simply needed more time to stump up the money for deposits, fill out the forms and get it all across the vast war-torn country to the right office in Kinshasa, the capital. But now the Congolese at least have someone to vote for—too many candidates, some might think. By the time registration closed on April 2nd, more than 70 people, including President Joseph Kabila, had joined the race for the presidency, whilst 8,650 people—out of a population of 60m—had signed up as candidates for the parliamentary elections.

Etienne Tshisekedi, the veteran opposition leader, was not among them. His party, the Union for Democracy and Social Progress (UDPS), says it will boycott the elections because the basic conditions for a fair vote have not been met. It also refused to take part in the transitional government that brought together Mr Kabila's former government and the rebels who opposed it; Congo's savage war was officially declared over in 2003, though the violence continues, especially in the east of the country.

As a price for its participation in the elections, the UDPS is demanding that registration be re-opened for its supporters and that the party be given jobs on the electoral commission and the body regulating the media. These conditions are unlikely to be met, however, which increases the prospect of election violence. Mr Tshisekedi has a lot of support among Kinshasa's poor, and in his home region of the Kasais (see map).

Some analysts believe that, at the age of 73, the opposition leader has overplayed his hand, is afraid to go to the polls and is a spent force anyway. Others disagree, arguing that his party must be brought into the process if the Congolese are to be given a chance to vote for those not responsible for the war.

Chanting a new battle-cry of “Tshisekedi or Iraq”, thousands of his supporters have taken to the streets in recent weeks, threatening to reduce the already chaotic capital to complete anarchy unless their party's demands are met. While Kofi Annan, the UN secretary-general, was in Kinshasa last month, the police let the demonstrations take place. But the week before, they fired tear-gas and beat the largely peaceful crowds with chains and batons. The world's largest UN peacekeeping force, some 17,000-strong, is deployed in Congo to ensure that the UN-backed elections, costing $400m, go smoothly. It will be a tough mandate to fulfil.

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South Africa

A godsend

Apr 12th 2006 | PLATFONTEIN
From The Economist print edition

Hopes at last of a new life for the Bushmen

LAST week, outside Kimberley in South Africa's Northern Cape province, the first 40 recruits of Sanda, a new security company, paraded in the blazing sun and rolling dust to celebrate the end of their training. This would not be much of an event, were it not for the fact that all the recruits are Bushmen, the once traditional hunter-gatherers also known as San who roamed Southern Africa for thousands of years.

Handing on old skills for new uses

Sanda is bringing much needed hope to the 6,500 !Xun and Khwe Bushmen who live on Platfontein farm and who own a majority stake in the new venture. It is the brainchild of Gert Schoombie, a retired colonel from the South African Defence Force. “God gave me a very clear vision,” he explains. The Bushmen's traditional tracking and hunting skills could be used to deal with predators, recover stolen livestock and prevent attacks on farms by spotting unusual activity. At the same time, this would provide a stable source of income for people short of jobs and prospects, while preserving fast-disappearing skills and traditions. Luckily, God also sent Absa, a South African bank, which provided cash to start the project.

Kamama Mukua, the local Khwe leader, believes that this heralds a new future for the community, originally from Angola and Namibia. With his three-piece suit, sunglasses and hat, he dressed for the occasion. Like many others in Platfontein, he was enrolled in the Portuguese colonial army during the war in Angola in the 1970s. When the defeated Portuguese went back home, the conscripted Bushmen and their families fled to Namibia. With Namibia's independence in 1990, they moved to South Africa, and most were dumped in the Schmidtsdrift military camp, a desolate dustbowl near Kimberley. They remained there for ten years, living in tents, largely forgotten. A few years ago, they pooled their government allowances to buy Platfontein, the farm where they are now.

The plan is to train 1,000 guards over the next five years. Marais Kluge, a local farmer and Sanda's marketing director, says demand far outstrips supply. Loutjie du Toit, from the Bloukop farm in Mpumalanga province, has already recruited three guards from Sanda. The farm, he explains, loses about 15 sheep a week to theft, and a few more to jackals. He expects that even guards with bows and arrows will be a strong deterrent.

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Italy's election

Close, but no cigar

Apr 12th 2006 | ROME
From The Economist print edition

Romano Prodi wins by the tightest possible margin—and certainly not by enough to pursue a bold agenda of reform

AP

Get article background

FOR several hours, as the votes were being counted deep into the night after the Italian election on April 9th and 10th, it looked as if it might produce the worst possible result: a split parliament, with the two opposing coalitions each having a majority in one of Italy's equal chambers. By April 11th, however, it seemed probable that Romano Prodi's centre-left Union would control both houses, but with a wafer-thin margin in the Senate.

That this outcome is still only probable reflects calls by Silvio Berlusconi's centre-right House of Liberties for a recount that could create weeks of confusion, echoing Florida in 2000. Noting that the two alliances were separated by a mere 25,000 votes in the election for the lower-house Chamber of Deputies, Mr Berlusconi demanded a re-examination of some 43,000 spoilt ballots. He also contested the tally for Italians abroad that decided the outcome in the Senate, saying it revealed “many irregularities”. Far from conceding defeat, he attacked his opponent and claimed victory. His intransigence could yet spell trouble for Mr Prodi.

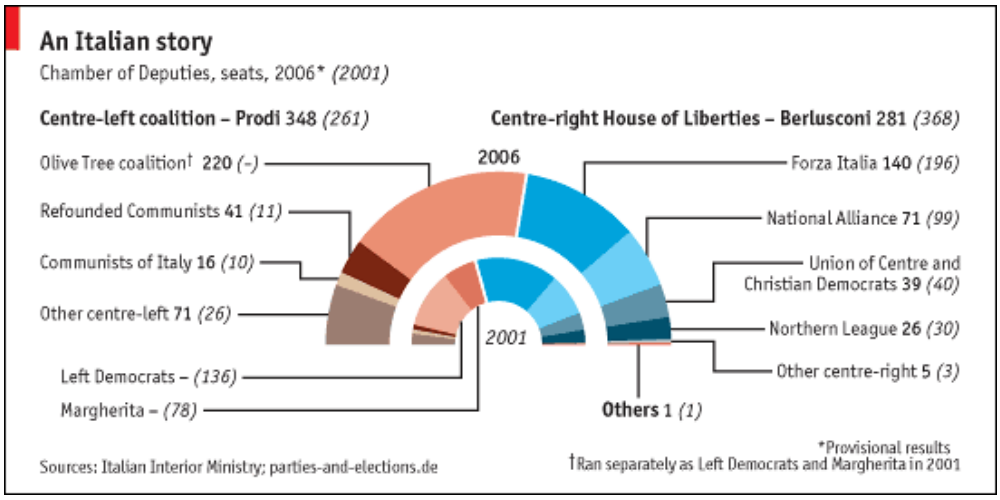
If the result stands, the centre-left can at least look forward to a substantial majority in the lower house. Thanks, ironically, to the new electoral system imposed by the outgoing government, the winning coalition gets a “winner's bonus” that automatically gives it at least a 50-seat majority. But in the Senate, a different system applies, making for a tighter margin of only 158 to 156 for the centre-left, with one independent. Most of the seven senators for life lean to the left, however, so Mr Prodi should be able to count on a majority of five or six in the upper house.

In any other country, this would create a delicate enough situation. But with Italy's economic position deteriorating fast, the outcome is even more serious. The economy's problems are structural rather than cyclical, and they urgently require the kind of root-and-branch reforms that Mr Berlusconi's government signally failed to push through during its five years in office. Unfortunately, after such a tight election, there is little chance of the centre-left delivering them either.

For one thing, a new Prodi government will live in constant fear of a new election. Will it want to put any votes at risk by taking on powerful vested interests? Will it have the stomach for a fight with, say, the professional bodies that everybody in Italy—except for the professional bodies—agrees should have their privileges trimmed? Will it be ready to challenge the public-sector unions' jobs-for-life culture, let alone the wage negotiators in the private sector, where pay rises are outstripping Italy's sagging productivity?

The answers to all such questions might well have been negative no matter how Italians voted. But in the centre-

left government that now looks probable, Mr Prodi is likely to find himself a prisoner of the radical left. Among the main winners of the election were the Communists of Italy, whose share of the vote in the lower house rose to 2.3%; and the Refounded (but unreconstructed) Communists, who took 5.8%. The leader of this last party, Fausto Bertinotti, wants to scrap one of the few liberalising measures of the Berlusconi government, the “Biagi” law that introduced short-term contracts.


An Italian story
Chamber of Deputies, seats, 2006* (2001)
Centre-left coalition – Prodi 348 (261)
Centre-right House of Liberties – Berlusconi 281 (368)
2006
2001
Olive Tree coalition† 220 (-)
Refounded Communists 41 (11)
Communists of Italy 16 (10)
Other centre-left 71 (26)
Left Democrats – (136)
Margherita – (78)
Forza Italia 140 (196)
National Alliance 71 (99)
Union of Centre and Christian Democrats 39 (40)
Northern League 26 (30)
Other centre-right 5 (3)
Others 1 (1)
Sources: Italian Interior Ministry; parties-and-elections.de
*Provisional results
†Ran separately as Left Democrats and Margherita in 2001

Moreover, neither of the two Communist parties likes privatisation, which could make it far harder for the new government to sort out the public finances. One of Mr Berlusconi's legacies is a growing budget deficit, which is leading to a rising public debt. Even before the polls had closed, Standard & Poor's, a credit-rating agency, had issued a warning that Italy's AA-rating would be at risk if there were no sign of a sustainable and coherent debt-reduction strategy after the election.

Ahead lurk minefields galore, any of which the centre-left could rapidly blunder into. No fewer than three important votes are due before the summer, which offer infinite scope for the trading of political favours, hostage-taking and extortion. First comes the ballot in parliament in May to choose a new president to replace Carlo Azeglio Ciampi, who is coming to the end of his seven-year term. Only then can a new prime minister be chosen. Given the narrowness of the result, an increasingly likely option may be to persuade the 85-year-old president to stay in office, at least for a while.

Later in May, there will be elections for mayor in some of Italy's biggest cities, including Rome and Milan, as well as for a new regional government in Sicily. In the second half of June, voters throughout Italy will be called back to the polls to approve or reject one of the more controversial measures passed by Mr Berlusconi's government: a reform of the constitution to turn Italy into a federal state.

The best hope for the survival of Mr Prodi's coalition through all this may lie in its very fragility and vulnerability. Any centre-left leader tempted to break ranks, on a point of principle or for the sake of personal ambition, will do so in the daunting knowledge that, by bringing down the government, he could give Mr Berlusconi the opportunity for which he is waiting. Few will be ready to take that risk.

Aware of the dangers facing the centre-left, Mr Berlusconi has now offered them a seductive alternative. Why, he asked, didn't Italians take a look at what happened elsewhere in Europe? In Germany, the narrow result last September led the two main political parties to form a “grand coalition” of left and right. Italy too was split down the middle. Mr Prodi had made a point of stressing national unity. So why should he not agree to work with the centre-right on the nation's problems?

Yet any such notion seems highly implausible after such a bitter campaign, in which Mr Prodi branded his opponents “criminals” and Mr Berlusconi called opposition voters “dickheads”. The two men, who first faced each other in the 1996 election (when Mr Prodi also won), roundly despise each other. They could never sit round the same cabinet table. Moreover, a “grand coalition” *alla Italiana* would mean trying to get agreement between former neo-fascists at one extreme and people such as Fausto Bertinotti at the other. Even a more restricted coalition, spanning the centre alone, would be hard to assemble—and it would still be unlikely to pass the radical reforms that Italy needs.

One of Mr Berlusconi's allies, Roberto Maroni of the Northern League, got it just right. If the results were upheld, he declared, the centre-left had “not just the right, but a duty to govern”.

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The Mafia in Sicily

Changing the boss

Apr 12th 2006 | ROME
From The Economist print edition

The dramatic capture of the Mafia's top man

Reuters

Man no longer on the run

AS IF Italy's election was not providing enough drama, the day the results came out also saw the arrest of the country's most wanted man: Bernardo Provenzano. Mr Provenzano has long been fingered as the boss of the Sicilian Mafia: the *capo di tutti i capi*.

After chasing him for over 42 years, the police finally arrested him in a tumbledown farm building just outside Corleone, the Sicilian hill town made famous in “The Godfather” books and movies. It was there that Mr Provenzano was born 73 years ago, and there that he rose up the ranks of Sicily's Cosa Nostra. In the process he won the chilling nickname of “the tractor”, because of the ease with which he mowed down anybody who got in his way.

Several things seem to have helped him to stay on the run for so long. The last known photograph of him was taken some 47 years ago, when he was only 26. He had an uncanny knack for sensing traps. But perhaps most important, he was shielded by a network of protectors which Italy's chief anti-Mafia prosecutor once declared included both policemen and politicians.

His arrest raised two intriguing questions. The first was its timing. The Mafia has always been political, and Sicily is a stronghold of the centre-right coalition. Italians will take much persuading that the arrest, on the very day of a power shift in Rome, was a coincidence, even if its significance remains obscure. The second issue is whether the police were led to Mr Provenzano by associates—and, perhaps, successors. Giuseppe Caruso, the Palermo police chief who masterminded the arrest, denied this, insisting that the fugitive fell into his hands “thanks to old-fashioned detective work”.

Whatever it was that led to Mr Provenzano's capture, it could have big implications for the Mafia's future. Despite his fearsome early history, Mr Provenzano became something of a moderate after taking control of the group over a decade ago. He will be especially remembered for stopping the Mafia's doomed but bloody efforts to challenge the state in the early 1990s. Under his leadership, Cosa Nostra seems to have withdrawn from its foreign activities to concentrate on crime in Sicily, notably extortion and the creaming-off of profits from public contracts. Under a new leader, that could all change.

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French reforms

Le climbdown

Apr 12th 2006 | PARIS
From The Economist print edition

France's government duly caves in to protesters against its labour reforms

THE French government this week did what French governments do best: it caved in to massive street protests, and binned a controversial reform. On April 10th President Jacques Chirac announced that he would “replace” the youth job contract that had provoked nine weeks of student and union-led protests on streets and university campuses across the country. His decision buried the *contrat première embauche* (CPE)—and with it any hopes of loosening France's rigid labour laws.

A drawn-looking Dominique de Villepin, the prime minister, promised instead some new measures for “young people in difficulty”. These will include more youth training, and financial incentives for employers to recruit unqualified youngsters on permanent contracts. In short, out goes any idea of rewriting the labour law, and in come even more subsidised jobs. By explicitly targeting only young people with no qualifications, the troublesome students are left alone. Triumphant trade unions agreed to suspend their protests, as did most of the students.

Politically, it was a humiliating climb-down for both Mr de Villepin and Mr Chirac. To the last, the prime minister had tried to stand firm, insisting that he would not bow to pressure from the street, as so many previous prime ministers have done under the Fifth Republic. The CPE, he argued, would encourage job creation by giving employers the flexibility to terminate contracts within the first two years. He agreed only to amend the law, as Mr Chirac had asked parliament to do ten days earlier.

But Mr de Villepin faced not only growing demonstrations—the latest two days of strikes and protest marches had each drawn some 1m-3m people. He also had to contend with less controllable forms of protest. Over the past couple of weeks, there have been mass invasions of railway stations and airports, such as Paris's Gare du Nord and Orly airport, as well as road blockades. Many universities have been closed for over a month. There was concern about radicalisation and the risk of further violence. One car outside the Sorbonne, in Paris, was overturned by student protesters, with its driver inside, after it appeared deliberately to have steered into a group of them. As the sense of crisis grew, Valéry Giscard d'Estaing, France's only living ex-president, urged the government to move. “It is high time to get out of this mess,” he wrote in a Sunday newspaper.

The immediate troubles are now likely to die down. Parliament is expected to vote the new measures into law quickly, bringing an apparent end to the sorry fiasco. But, as France digests the events of the past two months, what lessons will it draw? Already, some are wondering if the country will ever be able to reform. Successive governments have given in to mass street protests; in 1986, in 1994, in 1995, and now in 2006. If a relatively limited liberalisation of part of the labour code provokes such resistance, goes this line, what hope is there of bolder change?

That question especially bothers Nicolas Sarkozy, the interior minister and front-running centre-right presidential hopeful. This week, he repeated his call for a “rupture” with the past, arguing in an interview with *Le Figaro* that “big changes are indispensable”. But perhaps the French are just not up to the sacrifices that change imposes. The most commonly cited reason for the difficulty of reform, said a poll in *Libération* this week, is “the state of mind of the French”.

Yet an alternative explanation is that the case for change has never been well put. In 1995 Alain Juppé, prime minister and architect of a bold set of reforms, came across as an arrogant technocrat. He capitulated after paralysing winter strikes. This time, Mr de Villepin mistakenly chose to ram his CPE through by decree, with neither a full parliamentary debate nor any consultation with the unions. As an unelected former diplomat, he was perhaps not in an ideal position to bypass the people's elected representatives.

His difficulty is that, had he consulted more widely, he might not have succeeded in getting the CPE through at all. His predecessor, Jean-Pierre Raffarin, spent so much time consulting that most of his proposals for reform ended up diluted. Even his 2003 pension reform, which was carefully negotiated with the unions, did not go far enough. By definition, consensus-seeking, which has long been Mr Chirac's overriding concern, is not easy to square with unpopular reform.

After Mr de Villepin's tumble, Mr Sarkozy now looks the right's most likely candidate in the 2007 presidential

election. But does he have a secret prescription for reform? He has always argued, as he did again this week in *Le Figaro*, that reform “will only be accepted by the French if it is seen as just.” The perception of fairness in carrying out change is, he argues, as important as the change itself. So he advocates, for instance, limiting to six months the lay-off procedures that can currently drag on for years; in return, he would boost lay-off payments. “The French accept making an effort,” he insists, “on the condition that they understand what they will gain in return.” If he is right, the necessary political skill is to extract more from the effort than is offered in exchange, but without appearing to do so. Mr de Villepin's undoing was his failure to get that delicate balance right.

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Russian trade embargoes

Toxic tipple, but all our own

Apr 12th 2006 | MOSCOW
From The Economist print edition

After the gas disputes, Russia turns to the bottle

THE recipe for a cocktail called “Dog's Giblets”, invented by a (dead) Russian novelist, Venedikt Yerofeev, includes shampoo, superglue, brake fluid and insecticide. Russians like their drink strong and dangerous. Last month, Russia's consumer-protection agency decided to act—but not against Dog's Giblets, nor the moonshine vodka that kills and blinds thousands. Instead, Russia banned the import of most Georgian and Moldovan wines and spirits.

The Russians allege that these liquors are laced with dangerous pesticides and chemicals. The Georgians and Moldovans say the ban is political: “illegal, unfair and unfriendly”, says Zurab Noghaideli, Georgia's prime minister. In Moldova's case, it follows a tightening of the border between Transdniestria, a Russian-backed breakaway region of Moldova, and Ukraine. Trade bans, like gas-price rises, are now a feature of Russian policy towards its least-favourite neighbours. In January, Ukrainian meat and dairy products were blocked; Georgian fruit has also been turned back.

The latest embargo may also be connected to negotiations over Russia's entry to the World Trade Organisation, of which both Georgia and Moldova are already members. Or there may be a hidden commercial explanation, perhaps involving wine-wary vodka-makers. It is also true that dodgy wines with counterfeit labels circulate in Russia, though most of them, says Mr Noghaideli, are bottled within Russia.

The bans will have a big economic impact. Wine sales to Russia were around 8% of Georgia's exports last year; Moldova derives a big chunk of its GDP from the grape. Just as they are scrambling to diversify energy suppliers, both are now seeking new export markets. Georgia's president was in China this week, talking up his country's tipple.

But Russian businesses that distribute or bottle imported wine will also be hit. Vadim Drobiz, of the National Union of Wine and Spirits Producers and Distributors, says the ban could kill hundreds of small- and medium-sized Russian firms, and cost 250,000 jobs. Consumers will suffer too: as the manager of one Georgian restaurant in Moscow says mournfully, French or Italian wine can accompany Georgian cuisine in a crisis, but it won't be the same.

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Turkey and its Kurds

Fighting on

Apr 12th 2006 | DIYARBAKIR
From The Economist print edition

A new outbreak of Kurdish violence is a challenge to Turkey's prime minister

Reuters

Still burying the dead

Get article background

A NINE-YEAR-OLD boy, Abdullah Duran, was perched on a fourth-floor balcony when he fell to the ground in a pool of blood. His father and neighbours insist that he was shot by police. “My wife became crazy, my mother died of a heart attack when they learned of his death,” says Mr Duran. “Not a single government official came to say sorry, to share our grief.”

Abdullah is one of four children to die in the worst violence to grip Turkey's Kurdish region in years. It began on March 28th, at a funeral for four Kurdish PKK rebels. The funeral degenerated into a rampage, as enraged Kurds firebombed banks, stoned police stations and smashed hundreds of shop windows. Two Kurds died in clashes with the police. Their funerals triggered fresh protests in the provinces of Batman, Mardin and Hakkari, leaving ten civilians dead. Retaliatory attacks by the PKK took the lives of two Turkish women in Istanbul and ten soldiers in the south-east, heightening tensions across the country.

Turkey's prime minister, Recep Tayyip Erdogan, has vowed to crush the protests, insisting that “the security forces will intervene against the pawns of terrorism, no matter if they are women or children.” He refuses to meet leaders of Turkey's largest pro-Kurdish political party until they call the PKK “terrorists”. The PKK does tend to murder its detractors, especially if they are Kurds. But Mr Erdogan's uncompromising stance is a far cry from his speech in Diyarbakir last August, when he became the first Turkish leader to admit that the state had “made mistakes” in its dealings with the Kurds. This week the government was talking of toughening an anti-terror law that had been defanged to fit Turkey's aspirations to join the European Union.

The army is now building up its forces along the Iraqi border in preparation for an offensive against the rebels. Is this a return to the bad old days? And who is to blame? Part of the answer to both questions lies in the town of Semdinli, on the border with Iraq, where three Turkish intelligence officers were caught last November trying to blow up a bookshop owned by a PKK sympathiser. Many say the affair was masterminded by a shadowy coalition of rogue officers and bureaucrats known as the “deep state”, whose powers are being sapped by EU-inspired laws. Their aim is to provoke the Kurds into open conflict with the army, forcing the government to scrap EU-inspired reforms under pressure from a public opinion that considers tolerance of terrorism too high a price to pay for membership of a club that seems not to want Turkey much anyway.

The deep state's interests, this theory runs, overlap those of the PKK. The rebels have lost ground since the arrest in 1999 of their leader, Abdullah Ocalan, who told them to stop fighting and to withdraw to Kurdish-controlled northern Iraq. In this new climate Kurds have been allowed for the first time to teach in their long-banned language in private schools. Last month local television stations began broadcasting in Kurdish, another first.

More needs to be done—such as compensating a million Kurds forced out of their villages during the army's scorched-earth campaign against the PKK in the 1990s. Yet, as one local industrialist puts it, “Most of what the Kurds are asking for is either happening, or will happen as the EU reforms proceed.” A straw poll in the impoverished Benusen district showed surprisingly strong support for Mr Erdogan's mildly Islamist Justice and Development Party among unemployed youths who say Islam is the solution, not the PKK. New schemes to give poor families some $14-17 a month per child in educational support, as well as free health care, have bolstered support for Mr Erdogan.

Over the border, Iraqi Kurdish leaders, long derided as “feudal dictators” by the PKK, have come closer to achieving independence for their people than ever before. “The PKK is looking increasingly irrelevant, and the only way it can reassert control is through violence,” comments Ibrahim Guclu, a Kurdish politician who has been repeatedly threatened by the rebels. The test of Mr Erdogan's leadership will be whether he can deal firmly with PKK terrorism without alienating all Kurds. Offering Mr Duran his condolences might be a good way to start.

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Poland

Radio nasty

Apr 12th 2006 | WARSAW
From The Economist print edition

Anti-Semitic radio in trouble

THE Polish government is the most technologically advanced in the world—because it is radio-controlled. That jibe reflects the close relationship between Radio Maryja, run by an outspoken Roman Catholic monk, Father Tadeusz Rydzyk, and a government marked by its senior figures' piety.

Now Radio Maryja is embroiled in scandal. At the end of March one of its commentators, Stanislaw Michalkiewicz, said Jews were “trying to force our government to pay extortion money disguised as compensation payments”. This was tasteless even by this station's standards. It brought a protest from the Vatican, which urged the bishops to keep the station under control. It also led to a rare statement from one of Poland's best-known Jews, Marek Edelman. The last surviving commander of the Warsaw ghetto uprising of 1943 called for Radio Maryja to be closed down because of its “xenophobia, chauvinism and anti-Semitism”.

Many Polish bishops, who represent the brainy, open-minded faith embodied by the late pope, John Paul II, feel the same. They find Radio Maryja creepy and superstitious. The mainly secular Polish mainstream media have piled in as well, probing the station's questionable financial dealings. None of this may have much impact on the radio station's traditional, mainly elderly, rural and poorly educated listeners. But it may give the government pause for thought, as it prepares for a visit by the new pope next month.

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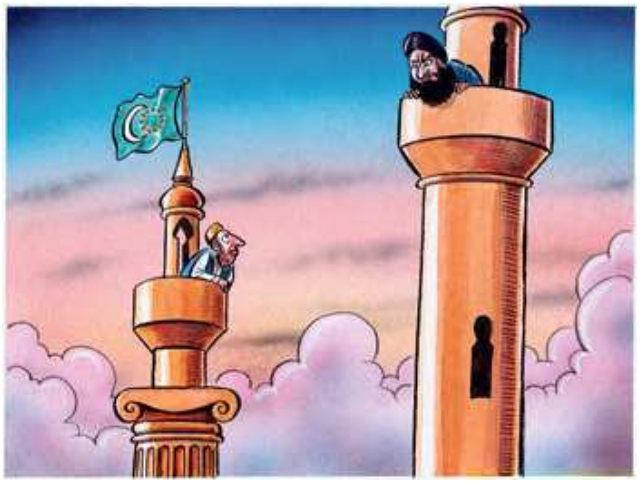
Charlemagne

Islam in Europe

Apr 12th 2006
From The Economist print edition

Sending a message to the faithful back home



Get article background

"I BELIEVE there is no European Islam," said Mustafa Ceric, a Bosnian imam, at a meeting of Islamic clerics and advisers in Vienna. Yet two months ago, his supreme Islamic department of Bosnia said that "Muslims who live in Europe have the right—no, the duty—to develop their own European culture of Islam." Such contradictions are part of a broad debate over the role and character of Islam in Europe, which could have profound implications, and not only because Muslims are the continent's largest minority. It might affect the wider Islamic world if it shows that Muslims can adapt to modern, secular democracies.

Traditional teaching frowns on the idea of distinctive forms of Islam, holding that there is a single community of believers, the *umma*. Differences clearly exist between Sunni and Shia, or between Saudis and Malays, but Muslims are reluctant to proclaim fresh ones. As a declaration by Islamic organisations in Europe put it in 2003, "a 'European' Islam is non-existent; only the term 'Islam in Europe' offers an adequate definition." Traditional teaching also divides the world into a house of Islam, under Muslim laws, and a house of war, where infidels prevail. But since Islam's earliest years, it has been accepted that there are also intermediate situations, with non-Muslim regimes that can provide tolerable conditions for Muslims.

Theologians have wrestled over the terms under which Muslims may live in non-Muslim lands. In the background is the belief that, if Muslim-friendly conditions do not exist, believers have a duty to migrate in search of more congenial places. But what makes the European Muslim experience challenging is that Muslims have migrated from their heartlands to places where they are a permanent minority. Theologians can hardly say that conditions in Europe are intolerable, when millions have voted with their feet. But given that Muslim life in Europe is a reality, on what terms should believers participate in secular western institutions? Some groups, especially the international Muslim Brotherhood, consider that they should participate vigorously in western, democratic institutions, even if they do not abandon their core belief that Muslim governance and law are ideal.

In the teeth of traditional teaching, European Muslims are creating a distinctive form of Islam. They are driven by their experience as minorities; by a desire to overcome ethnic differences; and by the trauma of emigration. The first encourages Muslims to co-operate with non-Muslims; the second encourages them to look beyond their traditions; the third forces them to come to terms with change and modernity. Sayed Ghaemmagami, mufti of the Shias in Germany, argues that the situation of Muslims in Europe is unique. "The existence of an Islamic diaspora", he says, "is totally different from the past and requires new thinking about relations with non-Islamic peoples." The Koran calls for peaceful relations between Muslims and others, so Muslims should engage with their new countries and not set up parallel structures. "We must participate in all activities of life, as students, as businessmen, as social workers," says Ahmed al-Rawi, president of the Federation of Islamic Organisations in Europe.

Muslims should also respect the difference between religion and politics. As Mr Ceric puts it, “a Muslim has allegiance to God as an act of faith but is a citizen with a duty to the state as an act of reason.” Mr Ghaemmagami says that “parallel societies are unIslamic. Muslims ought to feel accountable to the overall society and not manifest their customs in such a way as to run counter to the societies in which they live.”

Internal ethnic differences are reinforcing the minority experience to encourage a European Islam. Outsiders tend to see Europe's Muslims as all the same. But in fact they fall into at least five categories: those from European countries (Bosnia, Albania, bits of Russia); converts; first-generation immigrants; second- or third-generation Muslims born in Europe, who speak only European languages and, except in their religion, are indistinguishable from others; and those who have become largely secular.

The lure of fundamentalism

Olivier Roy, a French academic, has argued that, when Islam is torn from its traditional moorings—customs, family life and cuisine—it can become fundamentalist, and in some cases fanatical. Alienated both from their parents' way of life and their host societies, young European Muslims can be easily attracted by a back-to-basics version of Islam that acknowledges no national boundaries and has been disseminated with the help of plenty of Saudi oil money. As an example of the rupture between young European Muslims and their parents' homeland, take the Muslims of Bradford, England. When imams were brought in from north-western Pakistan to teach them, they failed completely to communicate with their young pupils. It is exactly in these circumstances, as Mr Roy points out, that Saudi-supported “neo-fundamentalism” becomes attractive.

The question is whether the search among young European Muslims for a new reading of their faith will stop there. Merely to live in pluralist western societies, where “choice” is important, is to pose questions that their parents never faced. In Bradford, the Islamic teaching curriculum had to be entirely overhauled to make it comprehensible to young Muslims. The development of a European Islam is, in a sense, at a caterpillar stage. As the final declaration of the conference of imams in Vienna said, there is no agreement on how to resolve the conflict between freedom of expression and defending Islam. Nor is there a consensus on the rights of European Muslim women.

For all these reasons, Europe's emerging Islam has not so far had any impact farther afield. But it is hard to believe that an Islam that is more open to democracy, sexual equality, and modernity would have no effect in the Middle East. And, uncertain and gradual as its gestation may be, that seems to be the Islam that European Muslims are trying to create.

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Northern Ireland

Still troubled

Apr 12th 2006 | BELFAST AND LONDONDERRY
From The Economist print edition

Corbis

Northern Ireland staggers toward normality

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THE “peace wall” that separates the Catholic residents of Madrid Street from their Protestant neighbours is more than 20 feet high. That is not quite high enough, which is why houses close to the wall are fitted with bullet-proof glass and roof tiles thick enough to withstand the blast from a small bomb. In the middle of the road is a gate, which is often closed these days. On the gate is an injunction: “Love thy neighbour”.

Belfast was not a walled city when it was settled by English and Scottish Protestants in the 17th century. It is now, although the barriers do not separate the town from the countryside in the normal fashion; rather, they divide neighbours. Eight years ago, when the Good Friday Agreement brought devolved government to Northern Ireland, north Belfast had 12 peace walls. It now has 15, and some of the walls are longer and higher than before. They are broadly popular with local people, who respond with puzzlement to questions about when the barriers are likely to come down.

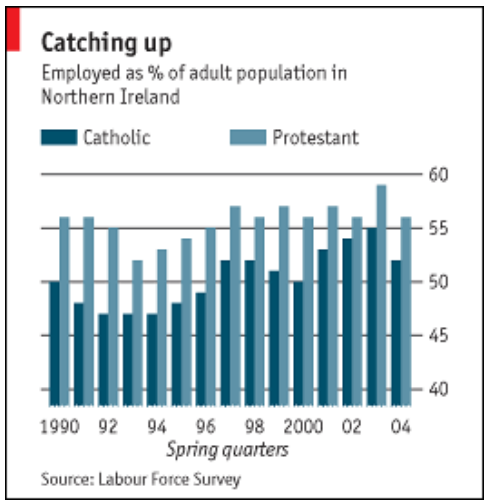
Less evident to outsiders, but just as obvious to those who live there, are the invisible walls that run down the middle of some streets in Belfast, including the ironically-named Alliance Avenue. These barriers are reinforced by habit—the same route home from the bus stop, pausing at the same shops each time—and by memories of attacks. Were a Catholic or a Protestant to stray into the other's territory, he would be less likely to meet with violence than 10 or 20 years ago, says Rab McCallum, a republican ex-prisoner who is now a community worker. Provided, of course, that the wanderer did not do something provocative. Like what? Like wearing a Celtic shirt in a Protestant neighbourhood, Mr McCallum suggests.

The war is over in Northern Ireland, but normality is proving elusive. Part of the problem is that the province has never been normal. In the 19th century it saw some of the worst communal rioting of any city in the country. From the 1920s to the early 1970s, it was run by the Protestant majority, who resorted to ever more elaborate means of holding on to power as their numerical advantage waned: Londonderry, for example, was heroically gerrymandered. There followed a civil-rights movement that gradually gave way to a terrorist campaign, and a virtual civil war in which some 3,500 people died. Things are better these days, but only in comparison with Northern Ireland's peculiar past. Sir Hugh Orde, the head of the police force, boasts that officers in South Armagh, a mostly Catholic area, now occasionally drive cars rather than armoured jeeps.

Politics is especially dysfunctional, and reveals the same mistrust on the other side. Unionists (who believe Northern Ireland ought to stay part of the United Kingdom, and are mostly Protestant) gave most of their votes to the mainstream Ulster Unionist Party in 1998, when the first elections to the Northern Ireland Assembly were held. Nationalists (who are mostly Catholic, and believe, more or less fervently, in a united Ireland) preferred to support

the moderate Social Democratic and Labour Party.

In the past few years, though, both parties have lost votes to extremists. In last year's general election, they were humbled by the Democratic Unionist Party, which opposed the Good Friday Agreement, and by Sinn Fein, the political wing of the IRA. The result is gridlock. The Northern Ireland Assembly has been suspended since 2002, when allegations of spying by Sinn Fein brought it down. The fact that it is still closed is often blamed on events such as last week's killing, probably by militant republican nationalists, of Denis Donaldson, an IRA man turned British informer. But voting habits suggest that ordinary people do not want dialogue with the other side.



To many people, this is less striking than the social transformation of Northern Ireland. For members of the rapidly-growing Catholic middle class, in particular, life has never been better. Their success is evident in the universities, where Catholic students now outnumber Protestants four to three. It is clear from the broadly shrinking employment gap between the two communities (see chart). It can even be read on the city's doors. “Twenty years ago, solicitors in Belfast had names like William, Bruce and Trevor,” says one Catholic businessman, citing some typically Protestant names. “They are still there, but now they have been joined by Seamus, Malachy and Deirdre.”

As Catholics have become more upwardly-mobile, they have spilled over into middle-class Protestant neighbourhoods. Some muttering ensued, but, in general, the new arrivals are tolerated. (Northern Irish people are expert at concealing their prejudices; as one saying goes, “whatever you say, say nothing.”) Middle-class Protestants have even begun to marry Catholics—at present, just one in ten marriages is “mixed”, but the proportion is higher in the tidy streets off Malone Road, in south Belfast. The city's growing number of black and Asian immigrants settle nearby, if they can afford to.

Catholics have been helped into the middle class by the state. Fully 30% of workers in Northern Ireland are employed in the public sector, compared with 24% in Scotland and 20% in England. Civil service jobs are lucrative because they are subject to the same pay scales as in England, where the cost of living is much higher. And hiring policies are equal to a fault.

The swelling of the state was, at least implicitly, designed to salve sectarian wounds: create a middle class, ran the thinking, and a middle ground will emerge. The trouble is that many middle-class folk, both Protestant and Catholic, have given up on politics. In the 2005 British general election, turnout in mixed, comfortable South Belfast was below average. “Much of the middle ground that does exist consists of people who have switched off,” says Pete Shirlow, a University of Ulster sociologist.

Such nonchalance might be welcome in the Protestant and Catholic ghettos of east and west Belfast, and in the “interface” areas in the northern part of the city. Opinions there are much hotter. In the loyalist (ie, militant unionist) Shankill, the extent of hatred for Catholics shocks even Tom Roberts, a former member of the paramilitary Ulster Volunteer Force. Resentment has increased, he says, since the signing of the Good Friday Agreement, which is seen to have benefited republicans—particularly violent republicans—at the expense of unionists.

Out of the mouths of babes

Lady (May) Blood, who works with children in north Belfast, says that sectarian sentiments are voiced at an ever-younger age. One reason, she suggests, has to do with the ending of the Troubles. For all its terrible effects, that was at least a proxy battle—“a war going on, often somewhere else, in their names”. Now the war is over, but the resentments and the memories of murdered kin remain, without the armed bands to act on their behalf. In a 2004 survey, fully a quarter of people asked said that a close relative had died in the Troubles. In working-class areas, that proportion is probably much higher.

The result is mutual mistrust and a crude enthusiasm for fighting, which is often blamed on paramilitaries but in fact needs little encouragement from them. Sir Hugh Orde, the police chief, says that the paramilitaries are much less troublesome than they were. But there is still plenty of “disorganised crime” and violence, which is hard to

predict, hence dangerous.

Another, more obvious reason for mistrust is that poor Protestants and Catholics are less likely to live next door to one another. Geographers who study segregation in Northern Ireland say that the pattern during the past century has been one of speedy separation during periods of sectarian violence (the 1920s, 1930s and 1970s-1980s), followed by much more gradual integration during peaceful eras that never reaches the degree of mixing that existed before the violence.

The trend is thus a ratchet. The last census, in 2001, revealed that Belfast was marginally less segregated than in 1991, but still much more segregated than it had been in 1971, shortly after the Troubles began. It is also more divided by religion than any English city is divided by race (see map). Ardoyne is 1% Protestant; Shankill is 3% Catholic. Blurring the boundaries will be hard, if not impossible. An eye-opening 2004 survey of 16-year-olds throughout Northern Ireland found that 52% of Catholics and just 47% of Protestants would prefer to live in an area of mixed religions. They were less keen on mixing than their elders, and Catholics were less keen even than their predecessors the year before.

Attitudes are hardest in loyalist areas. Prospects there are grim: of the 15 electoral wards in Northern Ireland with the worst educational attainment, 13 are mostly Protestant. And working-class loyalists feel less kinship with their social betters than do poor Catholics, in part because the Catholic middle class emerged only recently. That feeling is mutual: one Londonderry Protestant businessman says he feels more kinship with his Catholic neighbours than with many of his co-religionists. The widening social and cultural gulf between the hotheads and those who might act as a moderating force can be seen in two Protestant institutions.

The first of these is the church. Northern Ireland is still by far the most religiously observant part of Britain, but churchgoing is nonetheless in decline. Fewer than four in ten Protestants claim to attend church at least once a week, compared with six out of ten Catholics. Perhaps more importantly, the three largest Protestant churches—the Anglican Church of Ireland, the Methodists and the Presbyterians—have gradually lost members to smaller, mostly evangelical churches.

Unity, which Protestants never find easy to achieve, is thus becoming still more elusive. David Porter, an evangelical who runs the Centre for Contemporary Christianity, in Belfast, says he is sometimes approached by liberal Protestants who want to open a dialogue with a Catholic congregation. He says they would do more to alleviate tensions by talking to their co-religionists in a working-class loyalist area.

The other decaying Protestant institution is the Orange Order. This is associated, in the minds of most Britons, with riots that break out in July, when Orangemen celebrating the military triumph of the Protestant King William III try to march through Catholic neighbourhoods and are blocked when they do so. That is unfair. The Orange Order is certainly hardline when it comes to constitutional matters. Yet, for much of the 20th century, it tried to restrain violent impulses among loyalists, together with their other sins (Orangeism was, and is, linked to the temperance movement). In many rural areas, Orange marches are respectable affairs. But the order's complexion is changing in the cities, largely as the result of desperation.

Between 1964 and 2004, Orange membership in Belfast fell from about 14,000 to fewer than 4,000. In Londonderry, it went from more than 2,000 to barely 800. To stay alive, the order has become less picky. Brian Kennaway, a former member of the Grand Lodge, says that middle-class members have been replaced by young hotheads, paramilitary men and martial-music outfits known as “kick the pope” bands. Last September, orange sashes were spotted at riots where guns were fired. Some think this summer's marching season will be particularly violent.

He who shouts loudest

To anybody who has seen the vast slums of south London, let alone the “projects” of the South Bronx, the housing estates of north Belfast seem astonishingly decent. The Shankill neighbourhood, which produced the Shankill Butchers, perhaps the worst of a dismal bunch of sectarian murder squads, has green spaces and generously-proportioned housing. That is, in itself, a clue to how much money has been poured into the province. It is also a reflection of the harsh political calculation that operates in Northern Ireland.

The Troubles were expensive to police; at their height, one in ten Protestants who had a job worked for the security services. Peace is less costly, but it is still not cheap. Public expenditure per head in Northern Ireland is 30% higher than the national average. Since the guns fell silent, Northern Ireland has also been lavishly supported by the European Union (which has spent €1.2 billion—$1.5 billion—so far) and by the American-backed International Fund for Northern Ireland.

Not all of this money has been spent wisely, and some has found its way into paramilitary hands. Community work, elsewhere the preserve of hand-wringing liberals, is in Northern Ireland often dominated by hard men. That is notoriously true of restorative-justice programmes, which have supplemented (and, in some cases, virtually replaced) the mainstream criminal-justice system in many poor areas. Mr McCallum, the former prisoner, says this

is not surprising. Law and order was for so long the preserve of the IRA, which administered beatings and blew off kneecaps, that ordinary people regard it as none of their business.

The fact that current and former paramilitary men are now engaged in good works is good, but it is not an unqualified good. It means that they are less likely to seek regular jobs (though some say no employer would look at them) and, more seriously, it gives them a vested interest in abnormality. If the walls tumbled, and the hatred dissipated, what would they do?

Others have learned to turn trouble to their advantage, too. The annual negotiations over Orange marching routes have become auctions in which both sides claim that greater disorder will ensue if their demands are not met. Nationalists suspect that loyalists have become adept at using violence to defend what few advantages they have, and in one sense they are right. Catholic housing estates in north Belfast are more crowded than the gradually depopulating Protestant ones, with less green space and houses abutting the peace walls. Yet the walls cannot be moved to reflect demographic changes; that would be inflammatory.

Northern Ireland has been so peculiar for so long that normality would come as a shock. Its inhabitants' way of life has been shaped by centuries of sectarian violence, their identities by the struggle to survive it.

During the past 15 years, though, those who live near the border with the Republic of Ireland have become increasingly aware of the advantages of peace and proper government. Once the island Cinderella, Ireland is now the third-richest country in Europe. In Londonderry, it is said, you used to be able to spot cars from the south without looking at their number plates, they were so decrepit. Now the cars coming over the border are BMWs.

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Murals

Mirror on the wall

Apr 12th 2006
From The Economist print edition

What Northern Ireland's murals reveal about the conflict

Get article background

IT IS one of the most outré examples of government spending in a province where public money flows like water. David Hanson, Northern Ireland's social development minister, announced last week that £1m ($1.7m) would be provided to paint out violent sectarian murals and replace them with something more decorous. Whether anybody dares take up the offer without the permission of the paramilitaries is another matter.

Protestant loyalists have been painting murals for a hundred years. Before the Troubles, they were mostly historical, though no less pointed for that. A favourite image was of King Billy (William III) crossing the Boyne after seeing off the Catholic James II in 1690.

Catholic republicans did not pick up the brushes until 1981, when prisoners on hunger strike created a cadre of martyrs. Republican images quickly turned militaristic, as did loyalist ones. Hooded gunmen proliferated; the most aggressive featured tombstones carved with the names of living people. Northern Ireland's murder rate had fallen by that point, but the walls implied that the situation would soon be rectified.

Following the ceasefires of the mid-1990s, styles and content diverged. Loyalists continued painting armed men with balaclavas. Republican murals remained militaristic, but the gunmen were now specific (and usually dead) people. “There are guns in republican murals, but they are old guns,” says Bill Rolston, who has written several books about Northern Ireland's murals. And new images began to appear, celebrating the American civil-rights movement and the campaign for Basque independence, along with an idealised Irish past. All are designed to show republicans as something other than a bunch of thugs.

It is suggestive of how utterly loyalists have been outmanoeuvred by their enemies that they have seemed unsure of how to respond. These days, hooded gunmen are still appearing, particularly in areas dominated by the Ulster Defence Association, a paramilitary group. But so is the Titanic (built in Belfast, by mostly Protestant workers) and the footballer George Best. A million pounds ought to provide further inspiration.

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The pound and the euro

Signs of weakness

Apr 12th 2006
From The Economist print edition

Why sterling may lose ground against the single currency

TWICE during Labour's first six years in office, Gordon Brown thwarted Tony Blair's ambition to join the euro. First in October 1997 and then in June 2003, the chancellor of the exchequer in effect vetoed the prime minister's plan.

One compelling reason for staying outside the euro was the unusual strength of sterling, as it is unwise to fix a currency at an overvalued rate. Since the euro started in January 1999 at €1.42 to the pound, sterling has generally traded high against it, breaching €1.75 in 2000 and, at its lowest in 2003, falling only just below €1.40 (see chart). This contrasted with sterling's weakness against an equivalent basket of European currencies after it tumbled out of the exchange-rate mechanism on “Black Wednesday” in September 1992.

The pound's dominance may, however, be drawing to an end. Some City economists are now forecasting a sharp fall against the euro in the months ahead. John Butler of HSBC thinks that the pound will fall to €1.33 by the end of 2006—the lowest in ten years.

Currency forecasts are notoriously fallible, but there are some good reasons to expect such a weakening. The pound's strength against the euro has largely reflected Britain's economic performance compared with that of the euro area—an achievement that Mr Brown has seldom missed a chance to crow about. For over a decade, Britain has consistently grown faster than the single-currency bloc. Even though GDP growth slackened to 1.8% last year, the slowest since 1992, this still outstripped the euro area's sluggish 1.3%.

However, this margin looks set to narrow this year despite the latest setback to reforms in France. *The Economist*'s panel of forecasters expects Britain to grow by 2.3%, only just ahead of the euro area's 2.1%. Some City economists think that the tables will be turned this year. For example, Robert Barrie of Credit Suisse has just raised his forecast for euro-area growth in 2006 from 2.1% to 2.5%, outpacing Britain.

As important as the rate of growth is its source. For the past decade, consumers have propelled the British economy forward. But now they are burdened by high debt and rising taxes. With business investment weak and the impulse from public spending losing momentum, the impetus for growth must now come from exports. Official figures released on April 11th, however, showed a deterioration in Britain's trading performance, which has been disappointing for several years. The deficit in goods and services in the three months to February widened to £13.2 billion ($23 billion) from a shortfall of £11.9 billion in the previous quarter.

What this suggests is that exporters need a helping hand through a decline in sterling. With half of Britain's exports going to the euro area, the pound thus needs to fall against the single currency.

If the pound does weaken against the euro, this could re-open the politics of joining the single currency. Euro membership will be an easier sell when the pound is weak than when it was strong.

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Political squabbling

Red wallpaper

Apr 12th 2006
From The Economist print edition

Why voters ignore spats between Tony Blair and Gordon Brown

OVER the past two weeks, Britain's voters have been bombarded with news about rows between Tony Blair and Gordon Brown. Conventional wisdom says that spats between prime minister and chancellor, the two most powerful offices in the land, are dangerous because divided governments get punished at the ballot box. The interviews and surveys that went into making up the latest opinion polls were conducted in the middle of this turbulent period. And yet they show little movement in the poll ratings of either the Labour or the Conservative Party. Why do voters seem happy to ignore something that politicos reckon is so important?

One theory is that Mr Blair and Mr Brown are only able to get away with their feuding because the Conservatives are so useless. Yet the Tories are not as unpopular as this theory would suggest. Ever since David Cameron's election as Tory leader, his party has matched Labour in the polls. Some Conservatives are now worrying that their poll numbers are flat-lining and that Mr Cameron is proving unable to make the breakthrough that he promised. The honeymoon, they say, is over. But Mark Gill, a pollster at MORI, points out that in a recent survey of approval for Mr Cameron, those who expressed an opinion favoured him by a ratio of two to one. Fully half of the sample, however, said that they did not know. The honeymoon, in other words, is not over yet, since a plurality of voters is still wondering what Mr Cameron is going to propose.

A second, more plausible reason is that not all splits, spats and tantrums have equal status. Margaret Thatcher's disagreements with her chancellor, Nigel Lawson, were well known in the 1980s, but they did not stop the Tories from scoring a convincing win in the 1987 election, for two reasons. First, the issue in dispute was technical. Voters had a stake in the economic effects of Britain joining or not joining the exchange-rate mechanism, but were not interested in theoretical discussions about which system would be best. Second, the row was not conducted out in the open.

Mr Blair and Mr Brown have also kept their rows private and indirect. Rumours about, say, Mr Brown refusing to talk to Mr Blair when they are sitting in the same car are put about by acolytes instead. And the splits have mostly been policy-free: Mr Brown sometimes hints that he dislikes some new Blairite wheeze, but stops short of proposing a rival plan. “It's pretty difficult to work out what the spats are about apart from personal ambition,” says Philip Cowley, a political scientist at Nottingham University. “And voters don't find it so shocking that politicians are ambitious.”

A third theory is that the various rifts between Mr Blair and Mr Brown have become like music in lifts: irritating background noise that voters have learned to filter out. The rivalry between Mr Blair and Mr Brown has been running for so long that voters have already priced in stories of rows between them. And, as with the Iraq war, those who are going to be turned off Labour by the matter have abandoned the party already.

But what if tales about Mr Brown's tantrums or Mr Blair's backpedalling on his succession actually help the Labour Party? One of the early dictums of Alastair Campbell, Mr Blair's domineering former spokesman, was that Labour should aim to dominate the news at all times, denying oxygen to the opposition. The *Blair v Brown* saga has this effect, and it also gives the impression that there is a vibrant debate going on within the government about the future of the country. This neatly sidelines the official opposition. It may be bad for ministers, who have to face two ways at once, but the biggest row in British politics for the past decade has so far done Labour little damage with voters.

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Religious schools

Public money, private beliefs

Apr 12th 2006
From The Economist print edition

Should religious schools exist in the state sector?

IT IS conference time for the teachers' unions, and complaints about badly behaved children, badly treated teachers and an unsympathetic government are rife as always. But this year the teachers have alighted on an important subject: how much influence mainstream churches and more esoteric sects should have over state-funded schools. The Association of Teachers and Lecturers voted on April 11th in favour of banning state funds for new religious schools by 2020. Over the Easter weekend, the National Union of Teachers (NUT) is to debate calling for an eventual end to state money for all such schools.

Religious schools sprang up in the sixth century, attached to cathedrals and monasteries. There are 7,000 in England and Wales now—600 secondary schools and 6,400 primary schools, most of them Christian. Over 100 new ones have been approved since 1997, including the first Sikh, Greek Orthodox and Muslim state schools. They are flourishing under Tony Blair, who is a practising Christian—as are his education secretary, Ruth Kelly, and his junior education minister, Andrew Adonis. And their role will expand after the prime minister's education reforms are passed and religious groups, charities and companies are allowed to run new, state-funded “trust” schools.

Trust schools are unpopular with most teachers' unions, but the NUT also opposes the government's plan to establish 200 city academies in poor areas by 2010. It dislikes the idea of outside sponsors, often from religious backgrounds, and their ability to influence the curriculum. One evangelical Christian businessman, Sir Peter Vardy, sponsors three state schools where Biblical creation myths are taught along with evolutionary theory.

Critics argue that as faith-based schools increase in numbers, racial and ethnic mixing will dwindle. A report on race riots in Bradford five years ago found that the existence of religious schools had increased segregation and contributed to racial tension. The government believes, to the contrary, that funding—and inspecting—Muslim schools, for example, will reduce extremist influences.

Another criticism is that religious schools may screen out “problem” children. The Department for Education says that they admit fewer children with special educational needs than community schools. A recent study by the Institute for Research in Integrated Strategies, a think-tank, found that religious primary schools take fewer children from low-income families than nearby local-authority schools. And the London School of Economics discovered this year that religious schools give lower priority to children in care than their secular counterparts do. Though they achieve better results than ordinary state schools (they account for 18% of all secondary schools but 42% of the top 200 comprehensives), critics claim they do so through selecting by stealth.

The churches defend their record, saying they only select on religious grounds and then only in what are called voluntary-aided schools, rather than the voluntary-controlled ones where local authorities have power to control admissions. Defenders of the faith say that devout parents want their children to enjoy a religious education and argue that it is parental commitment, rather than selection, which improves results. But polls show that the public is unsympathetic to the expansion of religious schools, especially as a fair number are likely to be Muslim.

Yet this expansion is unlikely to be rolled back, supported as it is by both the main political parties. Secularists complain that their choices will be further reduced as a result. Some people move house. Others pay for private education. But those who can afford neither are faced instead with “choosing” to send their children to community schools that admit more than their share of disadvantaged children. Religious compassion, it seems, goes only so far.

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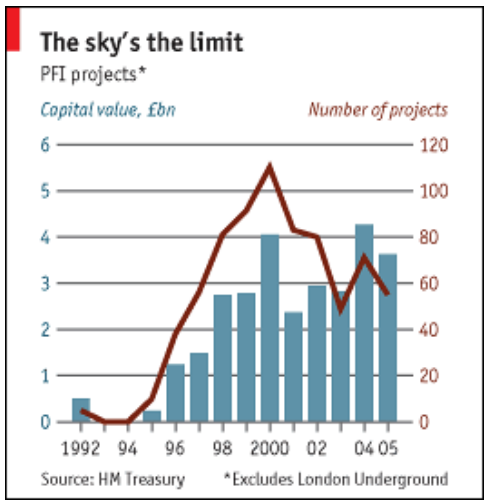
Private Finance Initiative

Rent-a-tanker

Apr 12th 2006
From The Economist print edition

Britain's military looks to private finance



FOR more than 100 years, the British army's establishment at Aldershot, in Hampshire, has been a hotbed of innovation. From here, expeditionary forces set out for France in two world wars and, in 1904, the first military car was tested on its muddy tracks. Now the innovation is all financial. Last week the Ministry of Defence (MoD) signed its largest ever Private Finance Initiative (PFI) deal, a 35-year, £8-billion contract under which a private company will finance, build and maintain accommodation for 18,000 soldiers.

The contract does more than underscore the government's ardour for the PFI approach. It also reflects its daring expansion of these contracts from the mundane world of schools and hospitals to the far less predictable realm of defence. Few will quibble with the Aldershot contract, for building a barracks is the kind of thing that PFI contracts should be good for. But the MoD is also negotiating a £13 billion aerial refuelling contract. A private firm will buy 15-20 Airbus jets, fit them out to military specification, train pilots and then lease the planes to the Royal Air Force whenever it needs to top up the fuel tanks of its jet fighters and bombers (usually on their way to the front line). When not needed by the military, some of the planes and aircrews will be rented out like U-haul trucks.

Are PFI deals the best way to finance such commitments? Many suspect that they are little more than a wheeze to get borrowing off the public balance sheet, allowing the government to spend without (officially) exceeding its public-borrowing targets. The Treasury says they are used only when they provide better value for money than old-style procurement. The evidence is mixed.

PFI contracts have a couple of advantages. First, they compel the contractor to finish on time by tying payments to the provision of service. The incentive seems to work. A 2003 National Audit Office (NAO) study found that 76% of PFI deals delivered projects on time, compared with just 30% of traditional procurements. The second is that they encourage contractors to consider running costs from the beginning because maintenance is included in their initial contracts. This should lead to buildings that are designed to be cheaper and easier to run. And finally, they limit the government's own flexibility to cut corners. Because maintenance is included in the contract, ministers are unable to dodge repairs when money is tight.

But PFI contracts deliver these benefits at a cost. Private borrowers pay more for money than the government does. Then, too, the state must transfer some risk (for example, that a building will take longer to build than expected) if it is to gain the benefits of private-sector expertise, but that adds to the cost. Better procurement and project management is meant to offset these extra costs, but the evidence that they do remains equivocal.

Fans claim that the growing secondary market for PFI contracts, by broadening demand for them, will help narrow the gap between the government's own borrowing costs and the rate charged to refinance existing contracts. New agreements that let the state share in the gains from refinancing may lead to additional savings.

On balance, PFI deals seem to work best on projects where the government needs something simple and easily measured, says Deloitte, an accounting firm. Asking for a school with a roof that doesn't leak is a good example. But risk is difficult to price, and costs go up as it is added. That is a worry for military PFI deals: pricing the risk of war into a contract would be an impressive feat of economic forecasting.

Another problem is that the government must sacrifice flexibility to persuade the private sector to invest. That may not matter on a simple job such as building a road, where requirements are unlikely to change much. But the opportunity cost grows with the complexity of the contract. Take, for instance, the public-private partnership to maintain and upgrade the London Underground, which, at £15.7 billion over 30 years, is Britain's biggest. “The tube is a very complicated system. Did we really know what we would want over the next 30 years?” asks Stephen

Glaister, a professor of transport economics at Imperial College, London. He points to suggestions from the mayor that trains should run overnight on Fridays and Saturdays as an example. “It's a perfectly good idea, but the contracts don't allow for it.”

The more complicated a contract is, the harder it is to write. The NAO reckons that bidding costs added £455m to the cost of the tube agreements, which run to 28,000 pages. A dizzying system of fines and rewards is meant to align the interests of contractors and passengers. But unless the state can calibrate everything properly in advance (a Solomonic task), its contractors may face perverse or inadequate incentives for the life of the agreement.

The tube experience provides ample warning of some of the hazards facing the military as it tries to wrap up the aerial refuelling contract. But it is unlikely to deter defence chiefs who face a choice of agreeing to a PFI deal or continuing to use tanker aircraft that are older than many of the pilots flying them, given the chancellor's reluctance to add to official public-sector borrowing. “It's great to throw stones at PFI,” says Nick Bliss, a solicitor at Freshfields Bruckhaus Deringer, which advises the government on the matter. “But people forget what the alternative is.”

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East European media

Londongrad

Apr 12th 2006
From The Economist print edition

A million east Europeans in London are creating a thriving media market

Home thoughts, abroad

WHEN spies from MI6 were caught red-handed in Moscow earlier this year, Natasha Chouvaeva knew just the espionage expert to interview: Oleg Gordievsky. He is a former KGB officer who spied for Britain, escaped from the Soviet Union and now lives in well-guarded anonymity. For the media inside Russia, he's taboo. But unlike her counterparts in Russia, says Ms Chouvaeva, editor of the fortnightly *Londonskiy Kurier* [London Courier], "I don't have to worry about the Kremlin."

Her paper, with a circulation of 12,000, is just one of a dozen thriving publications aimed at the east European diaspora in Britain. The latest arrival is a glossy English-language colour weekly, *Fusion*, with a circulation of 60,000. It is designed strictly for people from the eight post-communist states of the European Union. There are two other Russian weeklies plus a clutch of glossies focused on shopping and lifestyle; then there are six Polish publications (including a daily) and a radio station; and two Lithuanian papers. Their combined sales are over 120,000, and that is only a fraction of the market. *Fusion*'s editor, Klara Smolova, reckons there are up to 1m east Europeans in London—nearly four times the government's official figure.

The most interesting material is the advertisements. As well as the predictable pages dealing with shared housing offered and sought in the grottier parts of London, and the nannies and builders who have proved the salvation of the British middle classes, there are ingenious lifestyle tweaks: for example, a way of using your mobile phone contract to get free calls home. An escort agency wanting new recruits stresses that it is "run by women".

Ms Chouvaeva's paper apart, most of the publications show little interest in politics. Editorial content is a mixture of news from home and tips about how to survive in London. One Russian paper recently had a two-page spread on "Fake marriages, for and against". There is a smattering of snide commentary about British social mores, but the overwhelming sense is of appreciation and awe at the opportunities offered.

Some still find the offerings pretty amateurish. At a Polish newsagent in west London, Bogusia Jarzebska, a graphic designer currently working as a cleaner, sniffs about the Polish papers' clunky layout, bad prose and inaccurate information. "One of them is published by a company that used to be a cleaning agency. I think it's the same people working there."

That is why *Fusion* is so striking. Owned by the company that also publishes the *Guardian*, Britain's biggest liberal daily, it boasts both professional layout and sharply focused articles on survival (how to deal with double taxation) and fun (cheap days out). Its stablemate is TNT, published since 1983 for Australians, New Zealanders and South Africans in London. After only two months, *Fusion*'s circulation is only 7,000 behind.

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The language business in China

English beginning to be spoken here

Apr 12th 2006 | SHENZHEN
From The Economist print edition

OnAsia

The market for English-language education in China is huge. The profits are not

“MY MOTHER used to be an engineer, but now she's a housewife. I don't like her job. I want to be a designer. I like to think up new ideas.” Not the words of a young British or American child, but a nine-year-old Chinese girl in Shenzhen city, southern China. And Shun Yushun is no prodigy. She is typical of her English First school, one of 68 on the mainland started by a Swedish-owned language-teaching chain.

Yushun belongs to a new generation in a country where older folks, deprived of education during the Cultural Revolution, speak almost no English at all. Even young adults struggle, having passed through an archaic school system that still insists on the brute memorisation of words and grammar. Zhang Jin, a 24-year-old from remote Guizhou province, studied English from the age of 12 and then for four years at Huanan University. But she has trouble putting a sentence together.

Today the Chinese are obsessed with English. Anything up to a fifth of the population is learning the language. As Gordon Brown, the British finance minister, observed on a trip to China last year, in two decades China's English speakers will already outnumber native English speakers in the rest of the world. This is fuelling a market that comprises everything from books, teaching materials and tests to teacher training and language schools themselves. At $60 billion a year, China is already the world's largest market for English-language services, estimates Mari Pearlman at ETS, an American group that developed TOEFL, a well-known test of English-language proficiency.

The bulk of this, she says, is spent on teaching materials: dictionaries, language textbooks and classroom aids. Most of these are supplied by the education arms of foreign companies in partnership with local firms. Macmillan has sold more than 100m school textbooks in China with its partner FLTRP, which has a fifth of the market and is the leading Chinese publisher of English-language books. Longman (which belongs to Pearson, part-owner of *The Economist*), Oxford University Press and HarperCollins have popular bilingual dictionaries, while Thomson Learning has licensed its teaching materials to People's Education Press.

Never too young to learn

Demand for textbooks has been boosted by the government's recent lowering (from 12 to nine) of the age at which primary-school pupils start to learn English, and many eastern cities have begun teaching it at six. On some estimates, English texts now account for up to one-fifth of the country's entire book sales. Though foreign publishers must license books to Chinese publishers, almost half the English-teaching market involves the purchase of foreign copyright.

There is also an increasing call for high-tech teaching. At its kindergartens, Beijing's municipal government has just

started testing interactive whiteboards made by a British firm, Promethean. At 33,000 yuan ($4,125) a go, they enable teachers to integrate traditional materials with movie clips, radio broadcasts and other internet content. Nicole de Lalouvière, the director of learning at the British Council in Beijing, claims its website, managed with a Chinese partner and offering free tests, vocabulary and business English, has become “the biggest online university in the world”, with 2m students.

Testing is also growing fast, as students with overseas ambitions practise for international college-entrance exams, and Chinese employers seek proof of English ability. Once again, foreigners are in pole position, though the two main suppliers, ETS and a venture between the British Council and Cambridge Assessment, are run as not-for-profit organisations. Teacher training promises to become another big market, given the shortage of half a million English teachers in state schools and Beijing's push to improve English ahead of the 2008 Olympics.

Finally, there are the private language schools themselves—some 50,000 of them, reckons Ms Pearlman, from family-run outfits to chains such as English First, Wall Street English and New Oriental, a Chinese operator that claims to be the biggest, with 2.5m enrolled students. While such schools were established for adults, the demand today is from parents willing to spend up to half their household income to boost their offspring's chances. The 550 students at English First's Shenzhen school used mostly to be adults; now more than 70% are children. And they are getting younger. The rage at kindergarten these days is English-speaking classes for four-year-olds.

Adults and college students, meanwhile, can choose from the many business-English classes at foreign colleges, such as the universities of Illinois, Maryland and Nottingham, which are establishing MBA courses and even entire campuses in China to tap into the huge numbers of potential students.

Yet not all this readily translates into profit. Education remains highly regulated. It is no accident that the state propaganda department controls the ministry of education, which only recently allowed (heavily edited) English textbooks from foreign publishers into the state system. Foreigners still cannot publish in China, receiving only royalties on their content. Their partners (such as FLTRP) use their materials to do a roaring business training teachers and running conferences. Though selling books to private language-schools can be more lucrative, these schools are also shackled. Foreign chains need a Chinese partner and must have their teaching materials approved. The difficulties and costs prompted English First to franchise all but four of its 68 schools: after a decade in China it has yet to recoup its investment.

The Chinese government is not entirely comfortable with western teaching methods. China has no government drive to welcome native English speakers, unlike Japan, where the ministry of education runs the 19-year-old JET programme, which puts thousands of foreign teachers to work in state schools. Indeed, until a few years ago, private language schools in China could be fined for hiring foreign English teachers.

Although China's passion for English is palpable, it will become a lucrative and open market only if China's Communist Party allows it to. It is reluctant because, along with English textbooks and teachers come western ways of learning and thinking—ways that might one day threaten the party's authority.

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Mobile phones

Roaming holiday

Apr 12th 2006
From The Economist print edition

The EU hopes to slash the price of cross-border mobile calls

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"TODAY it is only when using your mobile phone abroad that you realise there are still borders in Europe," lamented Viviane Reding, the European commissioner responsible for telecoms and media regulation, as she announced plans to slash the cost of mobile roaming last month. It is a laudable aim: European consumers typically pay €1.25 ($1.50) per minute to call home from another European country, and €1 per minute to receive calls from home while abroad. With roaming margins above 90%, European mobile operators make profits of around €10 billion a year from the trade, the commission estimates.

Ms Reding's plan, unveiled on March 28th and up for discussion until May 12th, is to impose a "home pricing" scheme. Even while roaming, callers would be charged whatever they would normally pay to use their phones in their home countries; charges for incoming calls while roaming would be abolished. That may sound good. But, as the industry is understandably at pains to point out, it could have some curious knock-on effects.

In particular, consumers could sign up with operators in foreign countries to take advantage of lower prices. Everyone would take out subscriptions to the cheapest supplier and bring them back home, says John Tysoe of the Mobile World, a consultancy. "You'd end up with a complete muddle. An operator might have a network, but no customers, because they've all migrated."

Another problem with Ms Reding's plan, he says, is that operators would compensate for the loss of roaming fees—thought to account for around 3% of their revenues and 5% of profits—by raising prices elsewhere. This would have the perverse effect of lowering prices for international business travellers, a big chunk of roaming traffic, while raising prices for most consumers.

The commission's proposals are "economically incoherent", says Richard Feasey of Vodafone, which operates mobile networks in many European countries. Imposing price caps on roaming is legally questionable, he says, and Vodafone has, in any case, been steadily reducing its roaming charges. (European regulators prevented it from doing so for three years on antitrust grounds after its takeover of Mannesmann in 2000.) Orange, another multinational operator, says it is planning to make price cuts, too. "Of course, now everybody's got price cuts," says Stefano Nicoletti of Ovum, a consultancy.

But perhaps Ms Reding's unspoken plan is to use the threat of regulation as a way to prompt action. Operators are right that her proposals make no sense, but they are charging too much all the same. So expect them to lobby hard against the proposals over the next couple of years, while quietly cutting their prices—an outcome that would, of course, allow both sides to claim victory.

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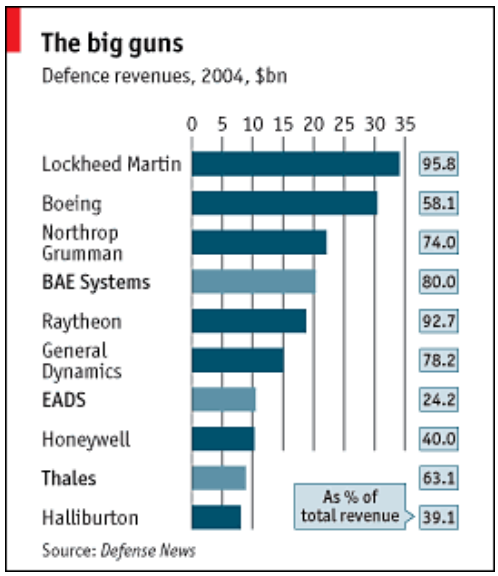
European aerospace

Not in formation

Apr 12th 2006
From The Economist print edition

A flurry of deals, but Europe is gridlocked

THE recent consolidation in Europe's aerospace industry has come after years of speculation about which combinations will emerge. But any hopes of stronger transnational groups look destined to be disappointed. Instead, the deals are likely to freeze the industry in its present fragmented state, with cross-border links restricted to joint ventures.



Last week DaimlerChrysler and France's Lagardère simultaneously raised €2 billion ($2.4 billion) each from the long-expected reduction of their stakes in EADS, a Franco-German aerospace-defence group that owns 80% of Airbus. Soon after, Britain's BAE Systems said it was in early talks to sell its 20% share in Airbus to EADS, worth some £3 billion-4 billion ($5.2 billion-7.0 billion). This sale is a long-overdue consequence of the transformation of Airbus from a consortium to a stand-alone company. Since 2001, when BAE's wing-making factories joined the new Airbus business, BAE has been a sleeping partner.

Also last week, the French Thales defence group bought the satellite interests of Alcatel as the telecom-equipment maker tidied itself up to take over America's Lucent. The deal increased Alcatel's stake in Thales to 21.6%, enough to block any move by EADS to buy it—something that has been openly talked about on and off for more than a year.

Within a few days the French government announced that a state bank (the Caisse des Dépôts et Consignations) will take almost a third of the 7.5% tranche of EADS shares being sold by Lagardère. This upsets the delicate Franco-German balance, with the French government and Lagardère holding nearly 25% of EADS, compared with the 22.5% now to be held by Germany's DaimlerChrysler. It sets the scene for yet more bickering.

EADS is dominated by the largely French civil-aircraft business of Airbus, which accounts for most of its sales and profits. The remaining defence business is largely German, although there is a missiles joint venture with BAE and Italy's Finmeccanica. The best hope for further consolidation might be for the British to sell their share of this to EADS and the Italians, if the British government consents.

It could happen. BAE is getting out of military metal-bashing and also out of Britain. From the moment it jilted Germany's DASA at the altar in 1999 in favour of a takeover of another British company, GEC-Marconi, it became clear that BAE saw its destiny across the Atlantic rather than in Europe. GEC-Marconi already had American defence businesses, which now account for at least a third of BAE's sales. There have been moments when the US department of defence has been a bigger customer for the company than Britain's own ministry of defence.

So the sale of the Airbus stake, to be followed perhaps by an exit from the missiles joint venture, could constitute a clearing of the European decks in preparation for a big push by BAE in to America. Since it acquired United Defense Industries, maker of the Bradley armoured vehicle, for $4.2 billion in 2005, BAE has become a key contractor to the Pentagon. Given that America accounts for about half of the open defence-equipment market, this westward migration makes sense.

Yet there are difficulties. BAE is a partner in the huge American joint strike-fighter programme (JSF), to which the British government has contributed some $2 billion in development costs. Congress, however, is still blocking Britain's access to software codes which could threaten to curtail severely British industrial participation in what will be the world's biggest defence-procurement project.

The trouble is that some of the American defence companies that have caught BAE's eye have proved too expensive. Four years ago it wanted Rockwell Collins, but could not afford it; the next temptation was L-3 Communications, a black-box maker spun out of Loral's merger with Lockheed, but talks went nowhere: now, at $10 billion, that is also too expensive. So BAE seems set on a path of small purchases in America, plus perhaps the

return of some cash from the Airbus sale to its shareholders. That is a strategy which the markets appreciate.

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Health care

Devices and their desires

Apr 12th 2006 | CHICAGO
From The Economist print edition

Engineers and chemists get together

THERE used to be a world of difference between treating a patient with a device—such as a fake hip or a pacemaker—and using biology and biochemistry. Different ailments required wholly different treatments, often with little in common. But that is changing as medical advances—such as those being trumpeted at the biotechnology industry's annual gathering this week in Chicago—foster combinations of surgical implants and other hardware with support from medicines. Drug-releasing stents were one of the first fruits of this trend, which increasingly requires vastly different sorts of health-care firms to mesh their research efforts.

That will be a challenge. While pharmaceutical and biotech firms are always in search of the next big thing, device-makers prefer gradual progress. Instead of hanging out with breathless entrepreneurs near America's east and west coasts, where most drug and biotechnology firms are based, many of the device-makers huddle in midwestern cities such as Minneapolis, Indianapolis and Kalamazoo. And unlike Big Pharma, which uses marketing blitzes to tell ailing consumers about its new drugs, medical-device sales teams act more as instructors, showing doctors how to install their latest creations.

Several companies, however, are now trying to bring these two business cultures together. Earlier this year, for example, Angiotech Pharmaceuticals, a Canadian firm, bought American Medical Instruments (AMI). Angiotech's managers reckon their company has devised a good way to apply drug coatings to all sorts of medical paraphernalia, from sutures and syringes to catheters, in order to reduce the shock to the body. AMI makes just the sorts of medical supplies to which Angiotech hopes to apply its techniques.

One of America's biggest makers of medical devices, Medtronic, has been doing joint research with Genzyme, a biotechnology company that is also keen on broader approaches to health care. Genzyme says that it was looking for better ways to treat ailments, such as coronary and kidney disease, and realised that it needed to understand better how electro-mechanical devices and information technology work. But combining its efforts with those of Medtronic “on a cultural level is very hard”, the company says. Biotechnology firms are used to much more risky projects and far longer development cycles.

Another difference is that device-makers know that if a problem emerges with their hardware, the engineers will tinker around and try to resolve the glitch. Biotech and pharmaceutical firms have no such option. If a difficulty emerges after years of developing and testing a new pill, as with Merck's Vioxx, there may be little they can do about it. “You can't futz with a molecule”, says Debbie Wang, a health-care industry analyst.

Strangely, says Ms Wang, some of the most promising engineering outfits were once divisions of pharmaceutical and health-care companies, which got rid of them precisely because they did not appear to offer the rapid growth that managers saw in prescription drugs. Guidant, a maker of various cardiovascular devices, was spun off by Eli Lilly in 1994 and a decade later became the prize in a bidding war between Johnson & Johnson and Boston Scientific, which Boston won earlier this year.

Pfizer sold Howmedica, which makes joint replacements and prosthetics, to Kalamazoo-based Stryker in 1998. Another joint-replacement maker, Zimmer, was spun off from Bristol-Myers Squibb in 2001. Now both those companies are looking for ways to add “anti-interactive coatings”—ie, drugs—to their business. One of the most troublesome complications in joint replacement is infection.

The big drug companies might be tempted to reacquire the firms that they let go. But, given the potential for cultural and strategic clashes, it may make more sense for a few big and broad medical-device makers, such as Medtronic, Boston Scientific and St Jude Medical, to continue consolidating their own industry while co-operating, along the lines of the Medtronic-Genzyme venture, with biotech and pharmaceutical firms as they see fit. There would still be irritation; but probably less risk of wholesale rejection.

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Antitrust

Intel inside

Apr 12th 2006
From The Economist print edition

The world's biggest chipmaker is about to have its day in court

THE world of personal computing is dominated by two near-monopolies: Microsoft's Windows operating system and Intel's microprocessors. For years, the software firm has battled with antitrust regulators while the chipmaker has remained relatively untroubled. But that is starting to change. Around the world, Intel is increasingly facing antitrust investigations and lawsuits. Its legal squabbles seem certain to grow.

In Japan the Fair Trade Commission (FTC) is poised this month to turn over evidence from its case against Intel last year to two Tokyo courts, where AMD, a rival American chipmaker, is suing Intel for damages stemming from its alleged anti-competitive behaviour. Then on April 20th AMD and Intel will meet in a court in Delaware to discuss the process of "discovery of evidence" for an antitrust suit filed last year. Meanwhile, the European Commission is investigating Intel's practices; it went so far as to raid four of the company's offices last summer. And in February South Korea's FTC also made a surprise visit to Intel, seeking material for its own investigation.

At issue in all these cases is Intel's use of rebates and marketing funds, which AMD claims is anti-competitive. Intel is accused of discounting its chips in such a way as to make it extremely costly for computer-makers to buy from it anything short of their total requirement. This, AMD says, elbows its own products out. Moreover, Intel gives rebates to computer-makers each quarter. In such a low-margin business, these can make a big difference.

Intel's use of "marketing development funds", such as paying a part of PC-makers' advertising costs, provided they promote Intel, is also under scrutiny. Because the PC business is so cut-throat, marketing is critical for computer firms—and Intel's help in shouldering the cost is essential. The question, however, is whether the programme is simply a kickback mechanism to reward PC-makers for their loyalty to Intel, at AMD's expense.

Intel denies any wrongdoing. "This is an extremely competitive market," says Intel's Chuck Molloy. "We have to compete aggressively and we do—but we also compete within the bounds of the law."

In a sign of the sensitivity of the matter, no big PC vendor is willing to speak publicly about the issue. However, industry executives say that a failure to purchase a preponderance of Intel products results in allotments decreasing or products being shipped late due to "unexpected" supply-chain hiccups. "It you stray from the Intel camp, you will suddenly get a chilly reaction from your neighbourhood Intel salesperson," explained one executive.

The rivalry between Intel and AMD stretches back a quarter of a century. In the 1980s AMD made clones of Intel chips; in the 1990s they sparred in court. Over the past three years AMD has made a number of innovations that today give it a technical lead, with chips for PCs and servers that are faster, less expensive, use less electricity and generate less heat. Although AMD has gained market share, it believes Intel's actions unfairly limit its sales.

The court meeting this month will start a massive paper chase as AMD uses America's generous rules on the discovery of evidence to amass documents on Intel's actions, which it can feed to regulators elsewhere. Intel's critics are heartened by a European Union antitrust ruling last month, where a firm that placed bottle-deposit machines in retail outlets was fined for striking exclusivity agreements. "Rebates and discounts cannot be used by a dominant company as part of a strategy to exclude actual and potential competitors," stated Neelie Kroes, the EU's Competition Commissioner. Intel will not take much comfort from that.

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Paramount and Mr Pellicano

Grey cloud

Apr 12th 2006 | LOS ANGELES
From The Economist print edition

A wiretapping scandal threatens to engulf Hollywood's elite

"I HAVE the utmost faith in the integrity of Brad Grey." So Sumner Redstone, the chairman of Viacom, told the *Los Angeles Times* recently. Hollywood is buzzing about Mr Grey, the boss of Viacom's film studio, Paramount, and his entanglement in the Pellicano affair, in which a famous Hollywood detective, Anthony Pellicano, investigated and allegedly wiretapped movie stars and producers, their wives and lowly assistants. Viacom is backing Mr Grey. "We have investigated this to the fullest," Mr Redstone said—though he added a curious caveat: "But can anybody be certain of anything but life and death?"

What is certain at the moment is that Mr Grey's lawyer, Bert Fields, hired Mr Pellicano in two lawsuits against his client. Messrs Fields and Grey say they had no knowledge of the detective's illegal methods. So far, Mr Grey has testified before the grand jury and been questioned by the FBI, but he has not been charged with anything. A spokeswoman for Paramount says the government has told Mr Grey that he has no involvement other than as a potential witness.

Mr Pellicano is due to go on trial next week, but that may be postponed until the end of May or even later. More indictments are expected. Last week prosecutors shocked Tinseltown by charging John McTiernan, a respected director who made action films such as "Die Hard", with lying about his knowledge of wiretapping by Mr Pellicano. Most alarming for Mr Pellicano's clients is that the sleuth seems to have taped not only their enemies but also their own discussions about how he would glean information. "There's nothing unusual about a Hollywood law firm hiring a private detective like Pellicano," says Edward Jay Epstein, the author of a book on Hollywood called "The Big Picture", "but it's unheard of for one to deliberately entrap his own clients."

To be involved in an escalating scandal is unfortunate for Paramount. The studio has performed poorly in recent years. Mr Grey, whom Viacom appointed in January 2005 to revive it, has replaced lots of people with little so far to show for it—in 2005 Paramount's profits fell and it was sixth at the American box office. In February Viacom bought DreamWorks SKG, an independent film studio, partly because Paramount had a thin slate of films of its own.

If Mr Grey is indicted, or if Mr Redstone decides that the Pellicano affair is too much of a distraction, Hollywood insiders reckon that a likely replacement would be Stacey Snider. She agreed in February to leave her job as chairman of Universal Pictures to be chief executive of DreamWorks SKG. In the meantime, Hollywood waits with trepidation to hear what else is on Mr Pellicano's tapes.

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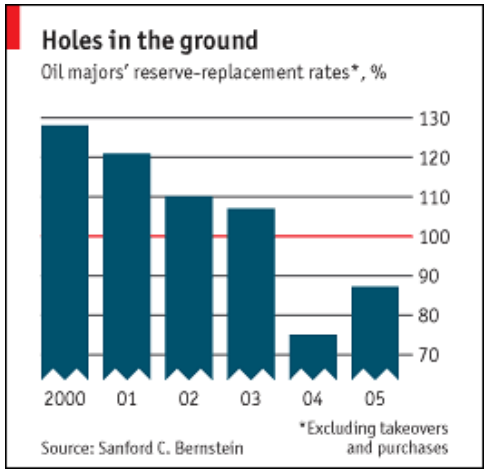
Oil companies

Improving their fieldcraft

Apr 12th 2006
From The Economist print edition

Finding new oil fields is getting harder, but not impossible



WITH the price of oil hovering near $70 a barrel, oil companies cannot pump the stuff fast enough. But in order to keep pumping in the long run, they also need to keep finding it. Unfortunately, most big Western oil firms are getting worse at exploration. Neil McMahon, an analyst at Sanford Bernstein, calculates that such companies had an average reserve-replacement ratio of 129% over the past five years—meaning that they found 29% more oil and gas than they pumped. But last year the ratio fell to 114%.

These figures understate the problem, since they include not only newly discovered oil, but also oil acquired through takeovers and purchases —"drilling in the canyons of Wall Street", as the old industry hands call it. Last year, for example, Chevron bought Unocal, prompting an apparent rise in its reserves, while several other American oil companies bought stakes in oil fields in Libya. Strip out such additions, according to Sanford Bernstein, and last year's average reserve replacement falls to a meagre 87%: overall, reserves are shrinking. The numbers get even bleaker if you are interested in new discoveries, as opposed to the more efficient extraction from existing fields. Wood Mackenzie, a consultancy, estimates that the ratio then falls below 50%—one reason why the industry is increasingly looking to the technology of enhanced extraction.

Even those companies with relatively high ratios are often relying on just one or two bumper additions to their books. Exxon Mobil's overall reserve replacement, for example, has averaged 114% over the past decade. But in 2004 and 2005 the vast majority of its new reserves came from just one field in Qatar. Exxon did not discover the field itself—it is developing it with Qatar's state-owned oil firm.

Exxon argues that reserve-replacement ratios, as defined by America's Securities and Exchange Commission (SEC), are not the best measure of exploration success. Because a company's reserves are such a large part of its valuation, the SEC stipulates how to calculate the oil a company has in the ground and what price should be used to decide whether it is worth extracting. But technology keeps evolving, and prices are always changing, leaving the SEC looking arbitrary and conservative. For instance, it does not allow firms to include oil recovered by mining rather than drilling, yet plenty of oil-bearing sand is being mined in Canada.

Richard Ward, of Cambridge Energy Research Associates (CERA), a consultancy, believes that the SEC's definitions not only give a distorted picture of how much oil firms have, but also deter investment by making some projects appear uneconomic. CERA recently suggested that the Society of Petroleum Engineers, an industry group, take over the job of drawing up reserve definitions from the SEC.

But investors have been twitchy about giving oil firms too much leeway since 2003 when Royal Dutch Shell horrified its shareholders by announcing that it had overstated its reserves by roughly a third. Earlier this year, Repsol-YPF, another big oil firm, announced a similar write-down of 25%. Even taking into account the effects of the SEC's peculiar pricing regime, and adding in reserves from oil sands, Shell's replacement ratio last year was just 78%.

Small is fruitful

Numbers like these have prompted fears that the world's oil production will soon peak, before succumbing to an inevitable decline. Yet some firms are still managing to find plenty of oil and gas. For example, over the past three years Apache, a mid-sized American oil company, has discovered almost twice as much oil as it has sold. Much of its success has come from buying mature fields from bigger companies, such as Shell and BP, and working out how to eke more oil from them. Other companies with good exploration records specialise in niches, such as extracting gas from especially diffuse fields or drilling in particular types of terrain.

In general, says Fadel Gheit, of Oppenheimer, an investment bank, smaller, specialist exploration companies tend to find more oil relative to their size than big integrated firms. That is partly a question of scale: one lucky break by a smaller firm could double its reserves, but barely register at one of the majors. However, it is also a question of opportunity.

Executives at the majors argue that selling declining assets frees scarce managers to concentrate on the biggest and most productive projects, which will make the most difference to the company's fortunes. That creates economies of scale and so lowers the cost of each barrel they produce. The hitch, analysts argue, is that the scope for such mammoth schemes is decreasing. The most promising regions for further exploration, including the Middle East and Russia, are largely off-limits to Western firms. It is no coincidence that companies that have managed to negotiate some access to these areas, such as Exxon and BP, have higher replacement ratios.

This does not mean that big firms will run out of oil, but rather that they will have to look for it in more obscure and daunting places, and use innovative technology to extract it—probably from smaller fields. They are already pioneering exploration in neglected spots such as the seabed off West Africa and in the Arctic. Needless to say, drilling in such places is difficult and expensive, and therefore risky.

The majors are the only companies with the scale to take on such projects, but they are also the only companies in which size obliges them to do so. As Tony Lentini of Apache says of smaller exploration firms: “We're pigs following the cows through the corn field.” All the same, compared with their bigger rivals, they are in hog heaven.

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Face value

A post-modern proctoid

Apr 12th 2006
From The Economist print edition

A.G. Lafley has made Procter & Gamble great again. But commodity hell is never far from his mind

Reuters

PROCTER & GAMBLE was recently voted the world's third-most-admired company. But Alan Lafley, the company's boss, sounds anguished: “It is so hard to grow,” he laments. “And the bigger you get, the harder it is.” The very things that are admired about P&G–the return to growth of profits and revenues in the five years and more since Mr Lafley took over–have made his job even harder. Last year P&G bought Gillette, a name almost synonymous with shaving, for $57 billion. Overnight the 169-year-old company was 20% bigger. Two years before it had bought Wella, a German shampoo manufacturer, for $5.7 billion, and two years before that Clairol, another hair-care business, for $5 billion.

How to make the company continue to grow is, Mr Lafley says, the last question to leave his mind when he meditates, which he has learnt to do to help him stay calm. The company's latest annual report is full of references to “growth strategies”, “organic growth” and “one of our biggest growth opportunities” (namely, Gillette). Growth has proved elusive before. P&G set itself ambitious targets in the 1990s based on innovation and big investments in R&D. But it stumbled badly. Total shareholder returns fell by 35% in 2000, the year Mr Lafley became boss.

It was a surprising appointment for a company that was then a byword for conformity. The meditating Mr Lafley is an odd mix, part traditionalist, part new thinker. Known to everyone as “A.G.”–his father was “A.F.” and his grandfather too was “A.G.”, Mr Lafley has been employed by P&G for almost all his working life. Such people used to be referred to as “proctoids” in a derogatory swipe at the sort of organisation man who would choose to work for life for a large company based in Cincinnati, in the Midwest. But Mr Lafley, if a proctoid, is a different breed from his predecessors. He was educated at Hamilton College, a liberal-arts school in upstate New York. Some time later he got an MBA from Harvard Business School. His father worked in Schenectady, New York for the human-resources department of General Electric, a company that now has his son on the main board. It was all a little too east coast for Cincinnati.

Neither has Mr Lafley's career at P&G been the traditional one knee-deep in fats and soaps. (The company invented Camay and Pringles and “soap operas”.) In the early 1990s he ran P&G's then very limited Asian operation out of Kobe in Japan, and was there at the time of the 1995 earthquake. After that he was put in charge of the worldwide beauty business, and Asia and beauty have since been the cornerstones of his strategy for growth. Sales in China have risen from $90m in 1993 (when Mr Lafley was directly in charge of them) to almost $3 billion today.

Perhaps it was Mr Lafley's unconventional inner proctoid that helped him take the culture of the place in new directions as P&G's business shifted in both products and geography. Today, the average age of its employees is 38, and 40% of them joined through an acquisition; they are not proctoids processed in Ohio, though Mr Lafley says “we do like people to do a tour in Cincinnati–to go to Mecca.”

The top management team has changed strikingly and is now more closely aligned with the strategy. Only 10 of the 35 most senior “corporate officers” of 1999 are still with the company. Of the 44 officers listed in the 2005 annual report, exactly half were born outside America (the company pointedly lists each one's “place of birth”, and they range from Palestine to Colombia and Mozambique). But it is still a surprisingly male place. In 1999 only three of the top team Mr Lafley inherited were women . By 2005 that number had doubled, but six women among the top 44 is a small number for a company where almost half of sales come from “beauty and health”, which manufactures both Tampax and Pampers and in which profits from beauty products have doubled in the past five years.

Wriggle room

That growth is what Mr Lafley is so anxious to defend and extend. He likes beauty–and has concentrated P&G's acquisitions there–because it is a business that is almost entirely branded. There is little competition from retailers' “own labels”–competition that, he says, threatens to push him further down into “commodity hell”, a place closely associated in American manufacturing with Wal-Mart, a vast low-price retailer where 120m people shop every week. Wal-Mart has dramatically shifted the balance of power between manufacturers, retailers and consumers. Almost 17% of P&G's worldwide sales are now at Wal-Mart stores, and the company keeps a permanent staff of more than 200 in Bentonville, the Arkansas town where Wal-Mart has its headquarters. Virtually every manufacturer is wriggling to escape from the grip of its purchasing power.

Curiously, while consumers are happy to put leading retailers' brands of peas and soups inside their stomachs, they are not (yet) prepared to put own-label creams on their faces. Mr Lafley is banking on them not wanting to do so for some time. But when–if–they do (and the time may come sooner than he thinks), the higher margins on P&G's beauty products will be eroded; commodity hell will beckon.

Until that day, Mr Lafley must focus like a P&G lifer on its brands, which, for the moment, means Gillette, the Boston-based maker of razors, toothbrushes and Duracell batteries. It is proving surprisingly difficult to persuade Gillette workers to leave their chowders and the Charles River; and for all the apparent synergies between razors, toothbrushes and hair-care, the two companies have a fundamental difference: one sells its products to men; the other to women. It will take “another year to 15 months” to digest, Mr Lafley says. As that time ticks away, the pressure on P&G's post-modern proctoid to find the next acquistion or the next market will only grow.

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Correction: Centre Cournot

Apr 12th 2006
From The Economist print edition

In "Colbert was here" (March 25th) we referred to the "Centre Courbet", a think-tank financed by Saint Gobain. In fact, the think-tank is called the Centre Cournot. We apologise.

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Retailing in India

Coming to market

Apr 12th 2006 | DELHI
From The Economist print edition

Reuters

The final frontier for global retailing is beginning to open

"WHY are Indians better at cricket than at soccer?" asks Dilip Modi, boss of Spice Communications, an Indian mobile-telephony firm. Because, he jokes, every time you award an Indian a corner, he opens a shop. India, according to a study published last year*, has the highest density of retail outlets of any country in the world—more than 15m, compared with 900,000 in America, where the market is, in value terms, 13 times bigger. In India the retail industry is the largest provider of jobs after agriculture, accounting for 6-7% of employment and about 10% of GDP.

It is also protected from foreign competition by rules that, despite some recent relaxation, still bar foreign direct investment (FDI) from most of the industry. But foreign firms, such as Wal-Mart, the world's biggest retailer, and its British and French rivals, Tesco and Carrefour, like the look of India's booming economy and its fast-growing middle class, and are knocking at the door. There are plenty of voices in India arguing it should be kept shut, lest an influx of foreign supermarket chains close millions of small shops. But the government, a coalition led by the Congress Party, is committed to the 15-year-old process of deregulating and opening up the Indian economy. The issue of whether or not to allow FDI in the retailing industry has become one of the touchstones of Congress's ability to make difficult reforms in the teeth of opposition, especially from the Communist parties on whose votes it relies for its parliamentary majority.

The debate about FDI, however, is really only one part of a broader argument. Kamal Nath, the minister of commerce, describes it succinctly: "big versus small". A whole range of constraints—legal, infrastructural, cultural and even educational—have inhibited the growth in India of large-scale organised retailing. But a number of companies are now taking up the challenge. In doing so, they are building a new protectionist lobby against FDI. But they are also strengthening the arguments in its favour, from those fearful of the emergence of a domestic cartel.

Only 4% of India's shops occupy a space of more than 500 square feet (46 square metres). Even in Delhi, some upmarket shopping centres, such as Khan Market, are clusters of tiny shops. In grocery shops boys perch precariously on ladders to fetch jars from remote crannies. In the bookshops browsers brush bottoms as they squeeze past each other in crowded aisles. Some of the poshest clothes shops are reached up narrow, twisting staircases.

Most Indian shops belong to what is known, quite accurately, as the "unorganised" sector—small, family-owned shops surviving on unpaid labour and, often, free land for a small stall. "Organised" retailing accounts for only 2-3% of the total, and of that, 96% is in the ten biggest cities, and 86% in the biggest six. However, organised retailing is growing at 18-20% a year and inspiring a rush of property development. Shopping malls are springing up in every big town: some 450 are at various stages of development.

Already, some retail chains have a national reach. Pantaloon, for example, which started business in 1987 as "India's first formal trouser brand", employs 12,000 people in more than 100 Pantaloon and other shops, "Big Bazaar" hypermarkets and "Food Bazaar" supermarkets. Kishore Biyani, its boss, believes he is in "the right business in the right country in the right time". The firm plans to expand its 3m square feet of shops to 10m square feet by the end of next year. Its website boasts it will become a "Godzilla" of Indian retailing.

Another monster, however, is stirring. Reliance Industries, an oil, petrochemicals and textiles giant, and India's largest private-sector firm, has startlingly huge retail plans. So big, in fact, that Mr Biyani believes they are not physically possible. Insiders say they involve 100 billion rupees ($2.2 billion) of investment in 1,500-1,800 supermarkets and hypermarkets, employing 400,000-500,000 people, with 60 supply centres, some with their own airstrips, strategically located round the country, all in the next two years. The wares will range from food to clothes to electronics. That is just for starters: in private, the firm talks of 1,000 hypermarkets and 2,000 supermarkets within four years.

Reliance spokesmen admit to no qualms about the scale of this undertaking. Yet the obstacles that any organised retailer faces are immense. As Mr Biyani puts it, "we are used to working under 'other things not being equal'". Should the doors ever open fully to foreign competitors, that experience will be a consoling competitive advantage. Among the problems are:

•**Potholes** India's electricity supply, roads and ports are all in sore need of investment. This is one of the biggest obstacles to the growth of organised retailing—but also one of the strongest reasons for encouraging it. The government simply does not have the resources to produce the investment India's woeful infrastructure needs, and is hoping for a bigger contribution from private-sector firms. Transport delays and inadequate cold storage mean that between 35% and 40% of fruit and vegetables grown in India rots where it is harvested or in transit.

•**Land grabs** Businesses and building projects of all sorts are often hobbled by the difficulty of getting land. In many places in India land titles are obscure and disputed, and land use is subject to restrictive limitations. The risks have been highlighted in Delhi, where in February the Supreme Court told the government to take action against illegal building and the misuse of residential property. It has done so by demolishing shops, including even some in swish malls, and by "sealing" hundreds of others. By one estimate 500,000 shops in the capital operate from "residential" premises.

However, Arvind Singhal, of Technopak, a consultancy, says that outside a handful of big cities such as Delhi, Mumbai and Bangalore, it is not too hard to buy land without prohibitive expense. In "second-tier" cities, such as Chandigarh and Jaipur, two state capitals in northern India, it is possible to find land in the centre of town. In smaller towns it is feasible to build hypermarkets on the periphery. Reliance, for example, says it has already bought 30% of the land it will need for its first distribution centres, and sees no problem in finding floor space for its shops, because of the mall-building boom.

•**Red tape** Organised retailers also have to negotiate a bewildering minefield of central, state and local government rules and regulations at every stage of their operations. In most states the Agricultural Produce Marketing Committee Act, for example, prevents farmers from selling their wares directly to retailers. In Karnataka, in the south, most farm produce must be bought and sold at the government-run market. So at a vast cash-and-carry centre in Bangalore, the state capital, opened by Metro, a German group, the acres of shelf-space designed for fruit and vegetables are empty or otherwise occupied. In many states, land-ceiling legislation prevents large-scale contract farming. Some sorts of food processing are "reserved" for small businesses. In towns the size of shops and permissible opening hours are governed by local rules.

Labour laws discourage large businesses by making it hard for them to lay off staff. Retailers also need to collect sheaves of licences, covering general trading, specific products, pollution clearances and so on. According to a 2003 study, a new shop needed, on average, 15 licences from 11 government bodies, and securing them took an average of six months and cost up to 500,000 rupees. Pantaloon's Mr Biyani says that every time a regulation disappears, a new one takes its place. He identifies the Environment Ministry as the biggest logjam. One of his planned developments has been stalled for a year. He is also exercised by a law in the state of Maharashtra (which includes Mumbai) banning plastic bags. "No retailer in the world," he laments, "can understand this."

Organised retailers have to cope with a tax system of bewildering complexity and cascading cost. A transition to a nationwide state-level value-added tax (VAT), and a national goods-and-services tax is underway. The present system involves import- and excise-duties, state-level and central sales taxes, VAT, octroi (a tax on goods in transit) and turnover tax.

•**People problems** Sanjeev Duggal, of NIS Sparta, a training and consulting firm, diagnoses an unlikely "Achilles heel" for big retailers in India: people. Despite the huge numbers employed in the retailing sector, it is not, he says, a "preferred career". Even Reliance, he believes, will struggle to find enough people with enough education to become good staff. Beth Keck, of Wal-Mart, argues that good, clean working conditions can make the profession more attractive. Reliance officials say it is becoming a top career choice for business graduates.

Conversely, some of those who are opposed to organised and foreign retailing argue both that it will put small shopkeepers out of work, and that it will not offer jobs for those with only a basic education. Pantaloon's Mr Biyani, however, who is recruiting 500-600 people every month, says that only about one-third of them have a college education.

Glittering prize

If the difficulties facing organised retailers in India are huge, then the possible rewards must be even huger to have attracted such intense domestic and foreign interest. This is part of India's broader surge of economic self-confidence at home, boosted by a spell in the international spotlight. The country is engaged in a prolonged coming-out party, where the world is at last noticing its size, achievements and potential.

The economy is one of the world's fastest growing, with GDP expanding at an average annual rate of about 7.5% for the past three years. A young population, declining dependency ratio and higher savings rate lead even the most sober economic forecasters to expect the growth rate to average 6% or so for the next few decades. The more sanguine think 8% can be sustained and even bettered.

Moreover, from the point of view of the retail trade, India's growth has an especially attractive feature: much of it comes from a surge in private spending. As Stephen Roach, an economist at Morgan Stanley, has pointed out, private consumption accounts for a big chunk of the Indian economy: 64%. That is more than in Europe (58%), Japan (55%) and, especially, China (42%). India's transition to a high-growth path, argues Mr Roach, “is very much an outgrowth of the emerging consumerism of one of the world's youngest populations.”

India is still, of course, a poor country. Only one in 50 households has a credit card; only one in six a fridge. As in China some 15 years ago, such measures are taken not as a deterrent, but as an indicator of the enormous potential size of the market. As an estimate of the size of the Indian middle class, the figure of 300m, used by an awe-struck George Bush on his visit here last month, has taken hold. But that would include all households with an income exceeding $2,000 a year in 2001-02 prices. A narrower definition used by the National Council of Applied Economic Research, a Delhi think-tank, puts the bar at about $4,400, leaving a consuming class of just 58m.

Since households have an average of 5.4 members, the figure of 58m is probably nearer the mark as a gauge of those with genuine discretionary spending power. But even so, the retail market is big and growing fast. Technopak, which estimated its total size at about $200 billion in 2004, expects it to reach $275 billion by 2010, with the share taken by organised retailing increasing to 9%, or $23 billion, implying an annual growth rate of 25-30%.

Queuing up to check it out

That is certainly big enough to attract foreign interest. Wal-Mart, in particular, has been eyeing the market keenly. The American company's prominent involvement in the campaign for an opening-up of Indian retailing may not be helpful: for some, it is the sort of company that stands for everything the Indian left seeks to oppose. H. Mahadevan, for example, of the All-India Trade Union Congress, calls it “one of the ten worst corporations in the world”, and opposes foreign investment in retail on the ground that “the Western concept of maximising output and minimising labour does not suit India”.

Yet those in favour of FDI argue that investment would generate employment. Ajay Dua, a senior civil servant in the Ministry of Commerce and Industry, says that every direct retail job brings another at “the back end”. In addition are the jobs that would be created among suppliers in industries such as food processing. According to the ministry, food processing in India adds just 7% to the value of agricultural output, compared with more than 40% in China and 60% in Thailand. This is one area Manmohan Singh, the prime minister, singles out as promising large numbers of jobs, but where “we have barely scratched the surface”. Some 100m Indians will join the workforce in the next decade, and there is great concern that, despite high growth rates, employment has remained flat, partly because of the failure of labour-intensive industries such as food processing to take off.

Mr Dua says he has a fat report on his desk from Wal-Mart, describing, among other things, how it runs three-month training courses in some places for those who find themselves displaced and jobless by the firm's arrival. But he points to the experience of Thailand, which opened up to foreign retailers after the Asian crisis in 1997. In the short term, according

Reuters

to the report cited earlier, “the entry of foreign players in a recessionary economy adversely affected all segments—wholesalers, manufacturers and domestic retailers.” However, there were also benefits. The foreign invasion led to the development of organised retailing (now 20% of the Thai market); producers had to become more efficient; foreign retailers started buying more Thai goods.

Easily brushed aside?

Wal-Mart argues the same would happen in India. At present it has 120 people in Bangalore, buying about ten categories of Indian products for its shops (clothing, textiles, shoes, leather wallets, stationery and so on). Were it to have outlets in India, its procurement would naturally increase. (The Metro operation in Bangalore buys 98% of its stock locally.) Suppliers would become familiar with its requirements, and exports would also climb. In China Wal-Mart accounts for nearly 10% of all exports to America.

Wal-Mart's Ms Keck is unapologetic about the firm's high profile in the campaign to open up India's market, arguing that it could hardly keep its ambitions secret. There has been progress. In January, just before the World Economic Forum in Davos, where India mounted a public-relations blitz, the government relaxed the rules on FDI. Foreign firms would be allowed to hold up to 51% in “single-brand” retail outlets, such as shops selling Nokia handsets or Nike shoes. At Davos Mr Nath said that “multi-product” single brands—a supermarket's own branded goods, say—would also be allowed to invest. The government also made it easier for foreign wholesalers to invest in “cash-and-carry” operations, such as Metro's.

Wal-Mart greets the “single-brand” decision as a great step forward. Those claiming inside knowledge suggest the provisions will be applied leniently, and that this amounts to a big liberalisation by stealth. The foreign firms will come in without a big political confrontation. Technopak' s Mr Singhal, however, thinks the single-brand exemption is a pointless cosmetic move. Speciality brands are anyway more likely to sell through franchises than joint ventures, and especially if they are forced by the rules to have a local partner.

Many, however, think the government will be forced to open up when, in Mr Singhal's words, “the real juggernaut starts rolling out”. Without referring to Reliance, Mr Dua of the Ministry of Commerce seems to agree: “if you are going to have organised retailing, let there be competition.” Reliance is confident it can compete even without a ban on FDI—and it will have a head start anyway. Pantaloon's Mr Biyani, however, is arguing against allowing the foreigners in. “What's the hurry?” he asks. If rules were relaxed now, he claims, India would attract no more than $2 billion-3 billion in FDI in retailing. If it waits a few years, he argues, that could increase to $15 billion-20 billion.

Whenever they are allowed in, the foreign shops still need to think hard about how to appeal to Indians. Shoes offer an example. Harsh Bahadur, boss of Metro in Bangalore, recounts how he realised that most makes were inappropriate for his customers—service businesses whose staff were swapping sandals for shoes and socks for the first time. Traditional, pointy-toed, lace-ups were too cramped for feet that have lived life in the open. So he commissioned a new range of square-toed footwear.

Mr Singhal says most foreign chains are still approaching India in a “classical” way: “Let Indians change.” Indians will, he concludes, and “maybe in 20 years' time, all India will go to a hypermarket.” Before then, however, a woman will prefer to buy her *salwar* or *saree* in the cramped little shop she has always used, rather than stroll down a fluorescent-lit aisle piling up a trolley with off-the-peg fashion.

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* “FDI in retail sector: India” Arpita Mukherjee and Nitisha Patel, Department of Consumer Affairs, India, and Indian Council for Research on International Economic Relations.

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Women and the world economy

A guide to womenomics

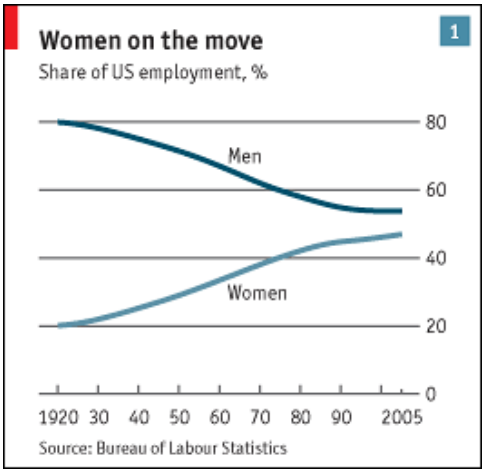
Apr 12th 2006
From The Economist print edition

The future of the world economy lies increasingly in female hands

"WHY can't a woman be more like a man?" mused Henry Higgins in "My Fair Lady". Future generations might ask why a man can't be more like a woman. In rich countries, girls now do better at school than boys, more women are getting university degrees than men are and females are filling most new jobs. Arguably, women are now the most powerful engine of global growth.

In 1950 only one-third of American women of working age had a paid job. Today two-thirds do, and women make up almost half of America's workforce (see chart 1). Since 1950 men's employment rate has slid by 12 percentage points, to 77%. In fact, almost everywhere more women are employed and the percentage of men with jobs has fallen—although in some countries the feminisation of the workplace still has far to go: in Italy and Japan, women's share of jobs is still 40% or less.

The increase in female employment in developed countries has been aided by a big shift in the type of jobs on offer. Manufacturing work, traditionally a male preserve, has declined, while jobs in services have expanded. This has reduced the demand for manual labour and put the sexes on a more equal footing.



In the developing world, too, more women now have paid jobs. In the emerging East Asian economies, for every 100 men in the labour force there are now 83 women, higher even than the average in OECD countries. Women have been particularly important to the success of Asia's export industries, typically accounting for 60-80% of jobs in many export sectors, such as textiles and clothing.

Of course, it is misleading to talk of women's "entry" into the workforce. Besides formal employment, women have always worked in the home, looking after children, cleaning or cooking, but because this is unpaid, it is not counted in the official statistics. To some extent, the increase in female paid employment has meant fewer hours of unpaid housework. However, the value of housework has fallen by much less than the time spent on it, because of the increased productivity afforded by dishwashers, washing machines and so forth. Paid nannies and cleaners employed by working women now also do some work that used to belong in the non-market economy.

Nevertheless, most working women are still responsible for the bulk of chores in their homes. In developed

economies, women produce just under 40% of official GDP. But if the worth of housework is added (valuing the hours worked at the average wage rates of a home help or a nanny) then women probably produce slightly more than half of total output.

The increase in female employment has also accounted for a big chunk of global growth in recent decades. GDP growth can come from three sources: employing more people; using more capital per worker; or an increase in the productivity of labour and capital due to new technology, say. Since 1970 women have filled two new jobs for every one taken by a man. Back-of-the-envelope calculations suggest that the employment of extra women has not only added more to GDP than new jobs for men but has also chipped in more than either capital investment or increased productivity. Carve up the world's economic growth a different way and another surprising conclusion emerges: over the past decade or so, the increased employment of women in developed economies has contributed much more to global growth than China has.

Girl power

Women are becoming more important in the global marketplace not just as workers, but also as consumers, entrepreneurs, managers and investors. Women have traditionally done most of the household shopping, but now they have more money of their own to spend. Surveys suggest that women make perhaps 80% of consumers' buying decisions—from health care and homes to furniture and food.

Kathy Matsui, chief strategist at Goldman Sachs in Tokyo, has devised a basket of 115 Japanese companies that should benefit from women's rising purchasing power and changing lives as more of them go out to work. It includes industries such as financial services as well as online retailing, beauty, clothing and prepared foods. Over the past decade the value of shares in Goldman's basket has risen by 96%, against the Tokyo stockmarket's rise of 13%.

Women's share of the workforce has a limit. In America it has already stalled. But there will still be a lot of scope for women to become more productive as they make better use of their qualifications. At school, girls consistently get better grades, and in most developed countries well over half of all university degrees are now being awarded to women. In America 140 women enrol in higher education each year for every 100 men; in Sweden the number is as high as 150. (There are, however, only 90 female Japanese students for every 100 males.)

In years to come better educated women will take more of the top jobs. At present, for example, in Britain more women than men train as doctors and lawyers, but relatively few are leading surgeons or partners in law firms. The main reason why women still get paid less on average than men is not that they are paid less for the same jobs but that they tend not to climb so far up the career ladder, or they choose lower-paid occupations, such as nursing and teaching. This pattern is likely to change.

The fairer and the fitter

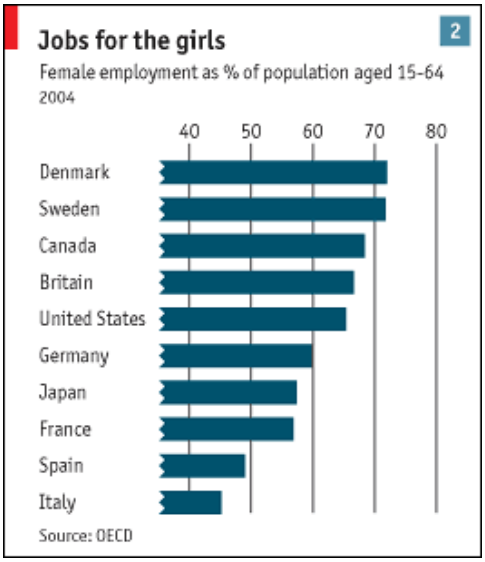
Making better use of women's skills is not just a matter of fairness. Plenty of studies suggest that it is good for business, too. Women account for only 7% of directors on the world's corporate boards—15% in America, but less than 1% in Japan. Yet a study by Catalyst, a consultancy, found that American companies with more women in senior management jobs earned a higher return on equity than those with fewer women at the top. This might be because mixed teams of men and women are better than single-sex groups at solving problems and spotting external threats. Studies have also suggested that women are often better than men at building teams and communicating.

To make men feel even worse, researchers have also concluded that women make better investors than they do. A survey by Digital Look, a British financial website, found that women consistently earn higher returns than men. A survey of American investors by Merrill Lynch examined why women were better at investing. Women were less likely to “churn” their investments; and men tended to commit too much money to single, risky ideas. Overconfidence and overtrading are a recipe for poor investment returns.

Despite their gains, women remain perhaps the world's most under-utilised resource. Many are still excluded from paid work; many do not make best use of their skills. Take Japan, where only 57% of women work, against 65% in America (see chart 2). Greater participation by women in the labour market could help to offset the effects of an ageing, shrinking population and hence support growth. Ms Matsui reckons that if Japan raised the share of working women to American levels, it would boost annual growth by 0.3 percentage points over 20 years.

The same argument applies to continental Europe. Less than 50% of Italian women and only 55-60% of German and French women have paid jobs. But Kevin Daly, of Goldman Sachs, points out that among women aged 25-29 the participation rate in the EU (ie, the proportion of women who are in jobs or looking for them) is the same as in America. Among 55- to 59-year-olds it is only 50%, well below America's 66%. Over time,

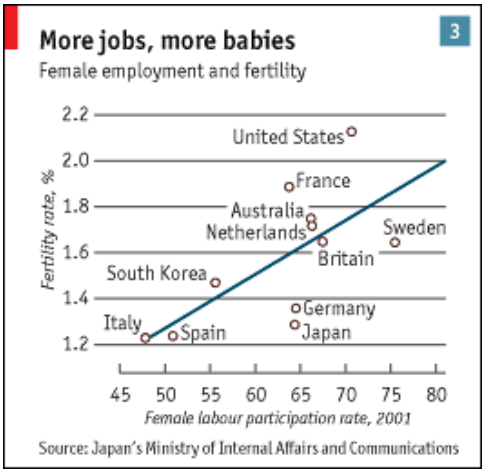
female employment in Europe will surely rise, to the benefit of its economies.



In poor countries too, the under-utilisation of women stunts economic growth. A study last year by the World Economic Forum found a clear correlation between sex equality (measured by economic participation, education, health and political empowerment) and GDP per head. Correlation does not prove the direction of causation. But other studies also suggest that inequality between the sexes harms long-term growth.

In particular, there is strong evidence that educating girls boosts prosperity. It is probably the single best investment that can be made in the developing world. Not only are better educated women more productive, but they raise healthier, better educated children. There is huge potential to raise income per head in developing countries, where fewer girls go to school than boys. More than two-thirds of the world's illiterate adults are women.

It is sometimes argued that it is shortsighted to get more women into paid employment. The more women go out to work, it is said, the fewer children there will be and the lower growth will be in the long run. Yet the facts suggest otherwise. Chart 3 shows that countries with high female labour participation rates, such as Sweden, tend to have higher fertility rates than Germany, Italy and Japan, where fewer women work. Indeed, the decline in fertility has been greatest in several countries where female employment is low.



It seems that if higher female labour participation is supported by the right policies, it need not reduce fertility. To make full use of their national pools of female talent, governments need to remove obstacles that make it hard for women to combine work with having children. This may mean offering parental leave and child care, allowing more flexible working hours, and reforming tax and social-security systems that create disincentives for women to work.

Countries in which more women have stayed at home, namely Germany, Japan and Italy, offer less support for working mothers. This means that fewer women take or look for jobs; but it also means lower birth rates because women postpone childbearing. Japan, for example, offers little support for working mothers: only 13% of children under three attend day-care centres, compared with 54% in America and 34% in Britain.

Despite the increased economic importance of women, they could become more important still: more of them could join the labour market and more could make full use of their skills and qualifications. This would provide a sounder base for long-term growth. It would help to finance rich countries' welfare states as populations age and it would boost incomes in the developing world. However, if women are to get out and power the global economy, it is surely only fair that men should at last do more of the housework.

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Commodity and bond markets

Flashback

Apr 12th 2006
From The Economist print edition

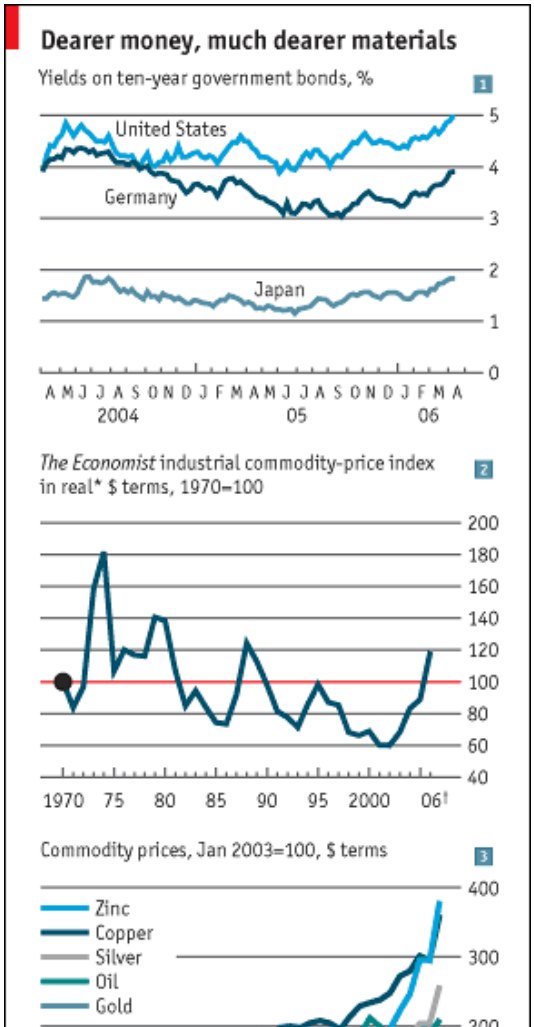
A new set of ties binds higher raw-material prices and bond yields—for now

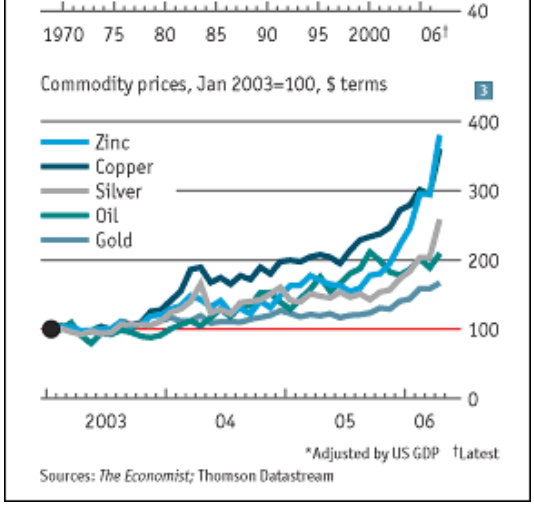
AT FIRST glance, it has the hallmarks of a classic inflation scare. In the past week commodity prices—from oil to orange juice, silver to sugar—have reached eye-popping levels. In nominal terms, the prices of Brent crude, copper and zinc have hit record highs. Gold has topped $600 an ounce for the first time since 1980 and silver is at its dearest in a generation. Meanwhile, long-term nominal bond yields in America and elsewhere have risen to levels not seen in more than a year. On April 7th the yield on America's 30-year long bond climbed the 5% barrier, sending a flutter of fear through global markets. The ten-year yield may soon follow.

The rising costs of money and raw materials took leading roles in that economic horror movie, the 1970s, when inflation ran amok and growth froze. Once again, the two are connected, but in ways that are almost opposite to the ghastly stagflation of the past. If there is any common thread linking rising bond yields and commodity prices today it is not inflation, but growth—though there, too, the relationship is likely eventually to break down.

The commodities boom began in 2003, as China sucked in materials from Middle Eastern oil to Chilean copper. The demand followed a long period of low investment by commodity producers, which exacerbated the sense of a squeeze. This had some curious consequences: in Britain, manhole covers were stolen, melted down and shipped east (tabloids called it “the great drain robbery”).

Meanwhile, despite healthy growth in the world economy, long-term interest rates seemed stuck. Alan Greenspan spent his last year at the Federal Reserve intrigued by the “conundrum” of why long-term bond yields weren't increasing, even as he and his colleagues were pushing up overnight rates to cool their economies. He left before the riddle could be solved.





Now an answer is emerging (see chart 1). Since the turn of the year, the yield on ten-year Treasuries has climbed to its highest level since the Fed started tightening in June 2004. The yield on ten-year German bunds is near a 17-month high. Japanese government bonds have been yielding more than at any time for nearly two years. But by historic standards yields are still low. And the component attributed to expected inflation, measured by subtracting inflation-linked yields from nominal yields, is even less threatening. It has barely budged this year. In America it hovers around 2.5%, in Europe just above 2% and in Japan below 1%—roughly where it has been for two years, even as oil and other commodities have gone ballistic.

There are plenty of reasons why hot commodity prices have not caused too many worries about inflation. One is that markets are confident that central banks will act to contain inflationary pressures. A second is that cheap Chinese exports have held down global prices. Another is that manufacturing's share of the world economy is declining; another is that the intensity with which industry uses raw materials is also shrinking—thinner steel in cars, for example—so that commodities' importance to inflation has diminished. And in real terms commodity prices are still well short of their 1970s peak (see chart 2). They have been on a downward trend since the 19th century, punctuated only by wars and other supply shocks: producers have generally coped with periods of surging demand, and probably will do so this time.

There is also a speculative side to the frothiness in the commodities market, which has grown since the rally started (see chart 3). As pension funds seek new sources of returns, some—such as the giant California Public Employees' Retirement System, with assets of $200 billion—are expected to dip their toes into commodities futures. In Britain J. Sainsbury, a supermarket chain, said it would choose commodities for about 5% of its fund, worth more than £3 billion ($5 billion) in all. Adding to the demand, the listing this year of exchange-traded funds in gold and other commodities has made life easier for would-be speculators. They don't even need to buy gold bars any more.

The cheapness of money has helped to feed investors' appetite for assets of all sorts—the ubiquitous “search for yield”. The rewards from investing in commodities have so far been extremely juicy.

Risks from the bond market

Now bond yields have at last begun to rise, sending returns for bond and commodity investors in opposite directions. The global economy is hot, which requires higher interest rates. To a certain extent, the rise in bond yields is a return to normality after the curious period when they failed to respond to tighter monetary conditions. This is no “debacle”, says Tim Bond, fixed-income strategist at Barclays Capital. “Things are safe and comfortable in the bond market at the moment.”

But whereas in the past higher commodity prices spelled bad news for bond markets, now the shoe may be on the other foot. Few expect that higher long-term interest rates will halt global economic growth, but they probably will have a dampening effect. That in turn should restrain demand for commodities.

Meanwhile, with yields rising, bonds will also compete with commodities for investors' funds, as they have with other risky assets, such as the Icelandic krona and the New Zealand dollar. With investors chasing commodities as if they were buried treasure, the danger is that returns will be even harder to find.

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Central European competitiveness

Lynx economies

Apr 12th 2006
From The Economist print edition

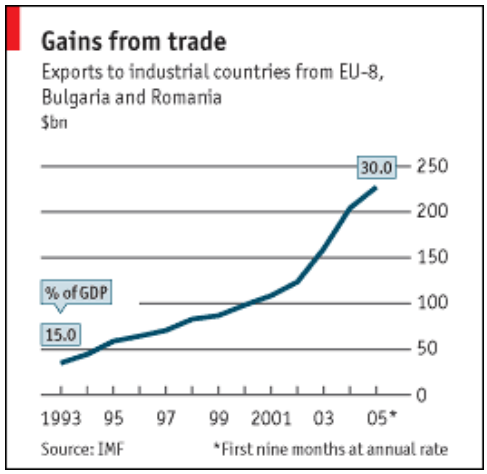
The advanced ex-communist countries have done well—and will do even better

THE best-performing ex-communist economies are setting quite a pace: Estonia and Latvia posted 10% GDP growth in 2005, reminiscent of Asia's "tigers". The question now is whether the new Europeans can keep it up and catch the richer half of their continent. Few worry about external shocks, though Hungary, with its big current-account and budget deficits, looks vulnerable. For most, basic competitiveness is more pertinent.

A study by the Vienna Institute for Comparative Economic Studies, a think-tank, and Bank Austria Creditanstalt paints an encouraging picture, at least for the eight ex-communist countries that joined the European Union two years ago. They are usually termed the EU-8, but "lynx economies"—in honour of the region's own fierce felines—would be catchier. Their prospects are much brighter than those of the next candidates for membership, such as Romania and Bulgaria. In particular, the lynxes look set to keep their edge against their Asian competitors in the EU market.

The study measures the EU-8's competitiveness in terms of export performance (both size and quality), economic structures (a big share for services is a strength, farming and manufacturing are not) and the friendliness of the business environment (from bureaucracy to infrastructure). On some scores, the lynxes have almost caught up. They gain 65% of their gross value-added from services, only just below rich EU countries, at 69%. The second-rank tigers (Indonesia, Malaysia, Philippines and Thailand) make only 47% through services. They have 13% of value added coming from agriculture; among the lynxes, it is 4.3%, in old Europe, 2.7%.

The growth in the lynxes' exports to rich countries (see chart) beats that of any Asian economy bar China. Those exports are fuelled by sharply rising foreign direct investment. As a share of EU-8 GDP, it was worth 29% in 2000 and 38.1% in 2004. In the second-rank Asian countries, this ratio fell, from 26% to 19%.



Even better, the quality of exports is shifting upwards. The study notes particularly fast growth in what it calls "medium high-tech" industries, which now make up the biggest category of exports. Here the lynxes are raising not only the prices they charge but also market share.

Two big weaknesses remain. One is in the quality of public institutions. The World Bank and others compile detailed scores of business-friendliness on which all European countries, rich and poor, are outshone by the likes of Singapore and Hong Kong. The EU-8 need to make sure that they emulate not stagnant old Europe but its dynamic rivals in Asia.

This is improving, slowly. A bigger problem is in research and development. Most post-communist countries devote puny amounts of money to this: the lynxes average only 0.8% of GDP, compared with 2% in western Europe. Politicians grumble that the foreigners who own most of their industries prefer to shop at home for brainpower that rich countries can afford to subsidise more generously.

That's partially true, but politicians are slow to recognise another problem: post-communist universities are still largely unreformed, complacent and introverted. There are plenty of ways that ambitious countries could pep them up—for example by paying internationally competitive salaries, teaching in English and encouraging closer links with business.

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Convertible bonds in Japan

Troubles all round

Apr 12th 2006 | TOKYO
From The Economist print edition

A rapidly growing market may be coming under scrutiny from regulators

“TOXIC”, “floorless” and “death spiral”: all these descriptions make the risks of multi-strike convertible bonds (MSCBs) pretty plain. It's a shame that they don't seem to have been translated into Japanese. Japan's MSCB market has grown at a staggering rate. Only ¥48 billion ($410m) were issued in 2003, the market's first year. By last year the total had reached ¥1 trillion, reckons one Japanese securities firm. In other rich countries these bonds are, though legal, mercifully rare.

MSCBs are corporate bonds that can be converted into new equity whenever the issuer's share price hits a target, or strike price, that varies daily, weekly or monthly, according to a formula. Securities firms, which underwrite and hold these private offerings, can make a lot of money from them at existing shareholders' expense, not least because they can buy converted shares at a discount of up to 10%.

Suppose the share price drops below the strike price. The issue of new equity dilutes the old shareholders. It also pushes the share price down further—and reduces the strike price set by the formula. This can trigger the conversion of even more bonds, further dilution, another drop in price and so on in a downward spiral. Furthermore, a lag between the delivery of shares to brokers and that to customers can allow brokers to borrow, and short-sell, the stock.

Given all this, why do companies issue MSCBs at all? For Japanese companies and their shareholders, the answer is largely poor corporate governance and financial education. In America lawyers are quick to file lawsuits against anything that looks like sharp practice. In Japan institutional investors seem uninterested and individuals unaware. Furthermore, most issuers of MSCBs would find it prohibitively expensive to raise money another way. Many are medium-sized listed companies with little financial know-how.

Take one company that issued ¥11 billion-worth of MSCBs last August. As more bonds were converted to equity and its share price tumbled, it scrambled to redeem the bonds, but was unable to beat the brokers. Its share price fell by 26% and its shareholders were diluted by a quarter. Another company saw its shareholders diluted by 23%. The first announced it “would never issue MSCBs again”, while the other sent an apology to its investors.

Brokers can also gain when prices are rising—as most Japanese shares have been—by keeping the converted shares until their price starts to climb. Still, sensing that regulators are stirring, some brokers are devising MSCBs that carry less risk for the companies and shareholders, and, as bondholders, more risk for themselves.

Japan's Securities and Exchange Surveillance Commission is starting to voice its concern. Kiyotaka Sasaki, its director of enforcement, said MSCBs were potentially “inappropriate or suspicious financing” in a recent speech to an association of foreign banks and securities firms. Mr Sasaki wants better disclosure and sales practices, and tighter supervision by brokers and stock exchanges. Changing the law is hard, so Mr Sasaki proposes to reduce the use of MSCBs through stricter policing. The main regulator, the Financial Services Agency, is writing a revised law that would weigh the “suitability” of financial instruments. A crackdown might not be far away.

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Regulatory arbitrage in exchanges

Seeking friendlier guards

Apr 12th 2006
From The Economist print edition

Differences in regulation matter in a world of global trading

AN ANGRY New Yorker is not a pretty sight. Charles Schumer, a Democratic senator from New York, showed as much with his recent efforts in Congress to slap high tariffs on American imports from China. In the corner of Manhattan where sharp-elbowed commodity traders reign, Mr Schumer is better known for taking on another potential threat to local jobs.

In this instance, his wrath is focused on the IntercontinentalExchange (ICE), a fast-growing, all-electronic operation based in Atlanta, which earlier this year began to compete against the tradition-bound New York Mercantile Exchange (NYMEX) in oil futures. Mr Schumer is agitated about a perceived advantage for ICE that has broader implications for financial markets: the use of regulatory arbitrage. This is the idea that an exchange may operate in one jurisdiction rather than another so as to gain commercial advantage from more favourable regulation.

Chiefly for historical reasons—it bought the International Petroleum Exchange in London and used to have a trading floor there—ICE is still regulated by Britain's Financial Services Authority (FSA), which is perceived to have a lighter regulatory touch than American watchdogs. NYMEX is regulated by the Commodity Futures Trading Commission (CFTC), which has largely exempted ICE from its oversight.

This strikes Mr Schumer as wrong, especially now that ICE has closed its trading floor in London and started to offer a contract in West Texas Intermediate crude oil, thus competing directly with NYMEX. James Newsome, president of NYMEX, says one regulatory difference that worries him is that ICE places no limit on the size of outstanding positions, while his exchange is subject to position limits under the CFTC. The New York exchange has responded by unveiling plans this month to list its energy contracts on the electronic trading platform of the Chicago Mercantile Exchange, in a deal intended to blunt ICE's technological edge.

ICE provides one example of how regulatory differences increasingly matter to exchanges. For another, take the (now suspended) bid by America's NASDAQ for the London Stock Exchange (LSE). The LSE has had success in attracting listings by overseas firms, often at NASDAQ's expense, in part owing to American laws such as the USA PATRIOT and Sarbanes-Oxley acts. Greater financial disclosure and the obligation for bosses to take responsibility for accurate reporting are two examples of rules that seem onerous to many. With talk of transatlantic tie-ups still swirling, such questions persist. This week NASDAQ raised its stake in the LSE to nearly 15%, buying almost the whole stake of Threadneedle Investments, hitherto the London exchange's biggest shareholder.

At a time when hedge funds and other active investors are eager to move their money around the world and technology allows it to happen faster, regulators remain one of the last barriers to seamless global capital flows. Exchanges, meanwhile, are consolidating and accelerating their shift from floor to electronic trading, leaving them less tied to particular locations. “Exchanges aren't geographic concepts any more, they're legal concepts,” says Benn Steil, an exchange expert at the Council on Foreign Relations in New York.

Regulatory arbitrage between exchanges has occurred since at least the 1990s, Mr Steil notes, when the CFTC allowed Deutsche Terminbörse (a precursor of Eurex, a German-Swiss derivatives exchange) to put electronic trading terminals in America. “That started the whole revolution in exchange consolidation,” he says.

The convergence of regulations may offset some opportunities for regulatory arbitrage. Since America tightened its rules a few years ago, financial centres around the world have looked increasingly to Britain as a model for their own regulations. Dubai, which has big ambitions as a financial centre, has hired regulators from the FSA. Hong Kong and other Asian centres also look west for regulatory influence. Those that resist—India, say—risk losing a share of global capital.

One potential model is offered by Euronext, a pan-European exchange operator that runs five exchanges subject to separate national laws under a single Dutch holding company, allowing it to side-step many regulatory wrangles. Virt-x, a London exchange best known for trading Swiss blue-chip stocks, has another approach: it has a dual regulatory structure under British and Swiss authorities, and traders decide where they want transactions cleared.

Although the FSA and its American counterparts—the CFTC and Securities and Exchange Commission—are co-operating more, differences will remain in their approaches. In fact, some regulatory competition is useful, because it should stop regulators from growing complacent or overweening.

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About sponsorship

Economics focus

Sawbones, cowboys and cheats

Apr 12th 2006
From The Economist print edition

Is your doctor, mechanic or taxi-driver cheating you? Economics can help

FIRST do no harm, doctors are wont to say. But some find it hard to sit on their hands. In a number of studies in the 1990s, Gianfranco Domenighetti, an economist at the Cantonal Health Office in Ticino, Switzerland, set out to discover whether surgeons performed more operations than were strictly necessary*. He and his colleagues found that the more sophisticated the patient, the less scalpel-happy the doctors. The best informed patients of all are, of course, other doctors. Sure enough, physicians went under the knife much less often than the average Ticino resident. (Lawyers' wives—whom doctors have good reason to fear—had the fewest hysterectomies of all.)

Surgeons belong to a class of experts—including computer engineers, car mechanics, taxi-drivers and others—who enjoy a fortunate position in relation to their customers. Not only do they provide a valued service (a cab ride, a repair, an operation), they also tell the customer what service she needs (a long trip, an engine overhaul, a hysterectomy). Their services are known as “credence goods”, because customers take it on faith that the supplier has given them what they need, and no more.

But as the Swiss studies show, it pays not to be too credulous. Customers can be overcharged—billed for something they did not get—or “overtreated”—given something they did not need. A mechanic might replace a car's gasket, but bill the customer for a new engine. Or he might replace the car's engine, when only a new gasket was needed.

How large do such dangers loom? For those people not married to lawyers, a new paper by Uwe Dulleck of Johannes Kepler University, Linz, and Rudolf Kerschbamer of the University of Innsbruck offers some consolation†. Customers may not know what the expert knows, but they know the incentives the experts face. If everyone acts on this knowledge, the market should, in theory, eliminate some of the incentives for expert dishonesty.

Suppose a customer can tell if his car has been fixed or not—it works, or it doesn't—but he cannot tell how it was fixed. In such cases, the mechanic has every reason to charge his customer for new brakes, even if he only replaced the brake pads. The customer should anticipate this danger. Indeed, he should resign himself to it: whatever the size of his car's problem, he can be sure his repair bill will be large.

Messrs Dulleck and Kerschbamer pursue this logic another step. If all customers share the same fatalism—as they should—what would the market for experts look like? When punters shop around for a mechanic or a plumber, they will ignore advertised prices for simple jobs. However attractive those rates may be, customers know they will never be lucky enough to pay them. They will instead prefer those experts who charge the least for elaborate procedures: new brakes, not new brake pads.

As a result, experts attract customers by shaving their prices for big jobs, and they do not lose any customers by raising their charges for small jobs. Consequently, the prices for all jobs, big and small, will tend to converge. In the extreme, Messrs Dulleck and Kerschbamer show, experts will charge a flat fee for all their services. In a competitive market, they will undercharge for expensive remedies, and overcharge for simple ones.

Is that extreme ever reached in real-life markets? Some estate agents now charge fixed fees for selling properties, shamed perhaps by the fact (demonstrated by Steven Levitt and Chad Syverson of the University of Chicago) that agents on commission sell their clients' homes more quickly and cheaply than their own.

At the start of their paper, Messrs Dulleck and Kerschbamer repeat some sage advice: if a car mechanic tells you he has replaced a part, ask him to put it in your boot. In many cases, customers can check that the expert really did what he said he did. Even Swiss doctors cannot pretend to remove someone's tonsils without really doing so. In such instances, customers cannot be overcharged. But they can still be overtreated. They know what procedure they received, but not what they needed.

Patient, heal thyself

Even if self-diagnosis is beyond them, however, customers can still diagnose the incentives experts face from the prices they post. If a surgeon enjoys fatter margins on bigger operations, he can be counted on to favour them. In principle, therefore, customers should flock to doctors who charge a uniform mark-up on all their procedures. In such surgeries, the price for complicated operations will be higher, but the margin will be the same. That way, the surgeon has no incentive to overtreat his customers. Do such surgeries exist in practice? That would be too much to hope. But many car garages now advertise standard job-completion times and then charge a uniform hourly rate. In other settings, the margins for quicker services are actually higher. New York taxis, for example, charge $2.50 the moment you sit in them, and another $2 for every mile covered.

Unfortunately, this pricing solution works only if taxi-drivers and mechanics are fully employed. When they have no trouble finding fares, taxi-drivers have no reason to take you the long way round. If they were not serving you they could be making as much money, or more, serving the next person. In quiet periods, however, the opportunity cost of "overtreating" clueless passengers falls, and the rewards rise. If the driver doubts he can find another fare, he would rather have you in his cab paying $2 a mile, than no one at all. In closing, Messrs Dulleck and Kerschbamer therefore offer advice that would otherwise seem counter-intuitive. If you are worried about being cheated by a taxi-driver or a mechanic, pick the busiest one you can find.

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* For example, "Revisiting the Most Informed Consumer of Surgical Services". *International Journal of Technology Assessment in Health Care*, No.4, 1993

† "On Doctors, Mechanics and Computer Specialists: The Economics of Credence Goods". *Journal of Economic Literature*, March 2006

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Race and medicine

Not a black and white question

Apr 12th 2006
From The Economist print edition

Medical research is starting to take account of people's race

LAST month researchers from the University of Texas and the University of Mississippi Medical Centre published a paper in the *New England Journal of Medicine*. They had studied three versions (or alleles, as they are known) of a gene called *PCSK9*. This gene helps clear the blood of low-density lipoprotein (LDL), one of the chemical packages used to transport cholesterol around the body. Raised levels of LDL are associated with heart disease. The effect of all three types of *PCSK9* studied by Jonathan Cohen and his colleagues was to lower the LDL in a person's bloodstream by between 15% and 28%, and coronary heart disease by between 47% and 88%, compared with people with more common alleles of the gene.

Such studies happen all the time and are normally unremarkable. But this was part of a growing trend to study individuals from different racial groups and to analyse the data separately for each group. The researchers asked the people who took part in the study which race they thought they belonged to and this extra information allowed them to uncover more detail about the risk that *PCSK9* poses to everyone.

Yet race and biology are uncomfortable bedfellows. Any suggestion of systematic biological differences between groups of people from different parts of the world—beyond the superficially obvious ones of skin colour and anatomy—is almost certain to raise hackles. There are good reasons for this. The eugenics movement of the late 19th century soon turned racist and that sorry story culminated with the doctrine of racial hygiene and the death camps of Nazi Germany. Yet decades ago, Luca Luigi Cavalli-Sforza of Stanford University showed that the frequencies of different alleles of genes for several blood and immune-system proteins vary geographically. It is now starting to be accepted that these sorts of variation can matter for health. If so, searching for genetic variations in different racial groups is not only acceptable, but also obligatory.

In Dr Cohen's work, the race question proved decisive. Of the 3,363 volunteers who described themselves as “black”, 0.8% carried an allele of *PCSK9* called version *142X* and 1.8% carried one called version *679X*. Among 9,524 self-described “white” volunteers, a mere 0.02% carried version *142X* and 0.04% carried version *679X*. By contrast, 3.2% of white people carried the third allele under study, version *46L*, while only 0.7% of black participants did. The researchers found that these relatively rare alleles correlated with low LDL, and did so in both blacks and whites, allowing them to conclude that it was the gene change that was crucial. If the team had ignored race and simply compared those who had heart disease with those who did not, and asked which alleles were linked to the risk, they would probably have missed the clinical significance of the alleles. This is because they would have appeared so infrequently—in less than 0.3% of the whole study population for version *142X*—that their effects would have been swamped. That is even truer for less populous racial groups; indeed, the smaller the group, the less likely researchers are to find important but rare alleles unless they can break the population down. Ignoring race altogether would be to the detriment of medical knowledge about the very people who might benefit.

It is this—the question of who gains—which is allowing the otherwise taboo subject of racial genetics to be broached. If it is minority groups (or, at least, groups that are minorities in America, where most of this work is being done) who are likely to reap the rewards, then the objections are likely to be muted. But they have certainly not gone away.

Race to the finish

For example, according to Richard Cooper, a professor of medicine at Loyola University in Chicago, talking about black people having a gene that predisposes them to some disorder or another “feeds a social process” that is deeply negative. As he observes, black Americans suffer more from high blood pressure than white Americans. “We don't know why, but everyone says it is genetic. But if you look around the world, by far the highest hypertension rates are in Poland, Finland and Russia. Much higher than black Americans. The average difference in blood pressure between blacks and whites is about 4mm of mercury, the difference between whites in the US and Russia is about 20mm. No one has ever said that these white people are genetically predisposed to hypertension: it must be their diet. But when they talk about blacks, it has to be genetics. That, in a nutshell, is the whole problem with this whole way of thinking.”

There is much truth in this criticism. But sometimes you find the opposite: racial differences seem to amplify observable genetic ones. One example cited by Neil Risch, the director of the Centre for Human Genetics at the University of California, San Francisco, concerns *ApoE*, another gene involved in LDL metabolism. One particular allele of this gene, *ApoE4*, is associated with an increased risk of Alzheimer's disease.

ApoE4 is relatively common in most racial groups. About 9% of Japanese Americans have it, 14% of white Americans and 19% of black Americans. But the impact of *ApoE4* differs significantly between these groups. Individuals of Japanese descent who have two copies of *ApoE4* (one from each parent) have a 33-fold increased risk of contracting Alzheimer's disease compared with those who have other versions of *ApoE*. Those of European descent have a 15-fold increased risk. Blacks, by contrast, have a mere six-fold increase in their risk. “Whether it is due to differences in genetic background or environment, who knows? But if you ignore race, you would never know,” says Dr Risch. Moreover, if the American population was sampled for *ApoE4* and Alzheimer's risk without regard for ethnicity, the risk would resemble that of whites, because their numbers would overwhelm the data from the other racial groups. As Dr Risch says, “I think these categories are useful as long as they are predictive. That doesn't prove that the difference is genetic.”

In the genes

In some cases, though, the difference clearly is genetic. A gene called *UGT1A1* controls the metabolism of a colon-cancer drug called irinotecan. Approximately 20% of African-Americans, 15% of whites and 1% of Asians have two copies of a non-functional version of this gene called *28. Because individuals lacking functional *UGT1A1* are at risk for serious complications if given the standard dose of irinotecan, genetic testing of patients before starting irinotecan therapy has become normal. Yet, while only 1% of Asians have two copies of the *28 allele, which is detected by the genetic test, 2.5% of Asians have another non-functional version called *6 which is not detected by the standard test. Indeed, it does not occur in blacks or whites. Thus, testing Asians for the *28 allele does not provide them with the same quality of care as it does for African-Americans or whites. “Identical treatment is not,” as Dr Risch puts it, “equal treatment.”

On the other hand, focusing too closely on race may not be the right answer either, as the tale of a drug called BiDil illustrates. The drug was originally tested some 20 years ago for its ability to reduce heart failure in high-risk patients. Overall, it had limited effect. In recent years, however, researchers noticed that the few blacks in the study tended to have a better response than the majority white population did. Thus, Nitromed, the company that now owns the drug, designed a clinical trial that compared BiDil plus standard therapies to standard therapies alone, but only in African-American patients. The drug worked, reducing deaths from heart attacks by 43%, and the Food and Drug Administration approved BiDil for use in black Americans, making it the first racially-targeted drug. The flaw, as critics point out, is that the drug was not tested in other racial groups, so there is no strong evidence that it worked better in black Americans than in any other group—nor is there any reason, genetic or environmental, why it should.

This sort of work raises another question, with its own set of sensitivities: how, scientifically, do you define someone's race? In studies such as Dr Cohen's this question is fudged, because people defined themselves. That is a reasonable starting point. But America's population is descended mainly from immigrants and those ancestors have been meeting and mating for centuries. Few native-born Americans trace all of their ancestors back to the same part of the world, so how closely are genes affecting disease linked to genes affecting racial self-identification?

Perhaps the last word should go to Francis Collins, who led America's contribution to the Human Genome Project, and thus helped to open the debate. “The downside of using race, whether in research or in the practice of medicine,” he says, “is that we are reifying it as if it has more biological significance than it deserves. Race is an

imperfect surrogate for the causative information we seek. To the extent that we continue to use it, we are suggesting to the rest of the world that it is very reliable and that racial categories have more biological meaning than they do. We may even appear to suggest something that I know is not true: that there are bright lines between populations and that races are biologically distinct."

Eventually, the technology developed to carry out the Human Genome Project, and the science it has made possible, will make the whole question redundant. It will be possible to look at the genes of each person as an individual. But until that time race, used sceptically, does have value. And unlike previous attempts at racial science, this one could actually do people some good.

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Health

Has all the magic gone?

Apr 12th 2006
From The Economist print edition

A nanotechnology product is recalled in Germany after health concerns

ON MARCH 27th a bathroom cleaner called Magic Nano went on sale in Germany. Three days later it was withdrawn from the market after nearly 80 people reported severe respiratory problems and six were admitted to hospital with fluid on their lungs. Although most of the symptoms soon cleared up, critics of nanotechnology have been quick to identify this as one of the first examples of a sinister technology run amok.

One problem with this criticism is that the respiratory problems were noticed only with the aerosol spray-can form of the product. No problems have been reported with the same fluid in a pump bottle. Jürgen Kundke, of the Berlin-based Federal Institute for Risk Assessment, a government group that reports on consumer-health protection, points to similar respiratory effects in a Swiss product several years ago that was not marketed under a nanotechnology label.

Another problem with blaming nanotechnology is that Kleinmann, the manufacturer based in Sonnenbühl, Germany, also produces a range of other products such as a windscreen cleaner containing the self-same nanotechnology. These have not harmed anyone.

The technology in question contains very tiny silicate particles suspended in a fluid. When they are applied to a surface, these particles block the minute crevices in it, reducing the scope for dirt, moisture and bacteria to cling to the surface.

Neil McClelland, a spokesman for Kleinmann in Britain, said the signs so far were that the culprit was the anti-corrosion liquid inside the propellant can. The aerosol was the only product in the Magic Nano range that the company did not produce—it came from a supplier in Munich, called Hago, which also tested the product.

On April 10th representatives from Kleinmann met scientists in Berlin to brief them on Magic Nano's ingredients. The product inside the aerosol was also cleared by the German consumer-protection agency just before the meeting.

Whatever the source of the problem, Kleinmann clearly has the responsibility to be sure that what it sells is safe. And this is where nanosceptics have a point. No law yet states how to test nanotechnology.

Although manufacturers will always test the safety of their products, consumers—and the companies themselves—may fear that they are missing tests needed to establish that nanotechnology products are safe. Nobody knows what such tests might be, especially for particulates. Regulators have been slow to issue guidance in spite of requests in Europe and America. The trouble is that government scientists are themselves unsure of exactly what tests might be necessary.

Nanosceptics hoped that this most recent episode would create a health scare over nanotechnology. In fact, the reverse seems to have happened. Mr McClelland says that the publicity about Magic Nano—in particular, that it provides as much as six months' antibacterial resistance to bathrooms—has brought Kleinmann more business than ever. In the teeth of the scare, Kleinmann's customers seem to have concluded that the magic hasn't rubbed off.

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About sponsorship

Biochemistry

Evolving enzymes

Apr 13th 2006
From The Economist print edition

A catalyst uses quantum mechanics to speed chemical reactions

IMAGINE hitting a tennis ball against a wall. Time after time, the ball bounces back. But, just occasionally, the ball disappears only to reappear on the other side of the wall. The wall is solid; no bricks are missing. It sounds surreal, but in the weird world of quantum mechanics such occurrences, involving very small objects over very short distances, are an everyday effect known as quantum tunnelling.

Whether such an effect could account for odd behaviour at larger sizes and distances has long been the subject of debate. In particular, it is of interest to chemists, who want to know how a group of proteins called enzymes speed up, or catalyse, chemical reactions at rates that are, in some cases, millions of times faster than the reaction rate in their absence. This is important because, in the absence of enzymes, most chemical reactions in biological cells would occur too slowly to support life. The answer, reported in this week's issue of *Science*, is that enzymes also exploit this quantum-mechanical loophole.

Like all catalysts, enzymes work by providing a chemical reaction with an alternative pathway that has a lower energy threshold to get it going. Nature will take the path of least resistance, just as a ball left to roll about in a bowl will settle inert at the bottom of the vessel. The question is: exactly how does the enzyme change the energy barrier for the chemical transformation such that the ball tunnels through the side of the bowl rather than languishing at its bottom?

The researchers, based at the University of Manchester and the University of Bristol, both in Britain, studied a compound called tryptamine, which belongs to a group of neurotransmitters and other chemical messengers that contain a nitrogen and two hydrogen atoms connected to an “aromatic” ring by a two-carbon chain. By common convention, an enzyme's name describes what it does, followed by the ending “ase”. So an enzyme called aromatic amine dehydrogenase (AADH) removes hydrogen from tryptamine.

Hydrogen, the simplest atom, consists of a single proton encircled by a single electron. As electrons are point-like, their quantum mechanical behaviour is well known. But protons are far bigger, and the idea that they might be able to quantum tunnel is more controversial. Yet the AADH catalyses the breakage of the otherwise very stable, carbon-hydrogen bond at ambient temperatures, a feat that would appear to be impossible. Something strange must be going on. The researchers suspect that protons as well as electrons are undergoing quantum tunnelling, that is, hydrogen itself is quantum tunnelling.

The team used X-ray crystallography experiments combined with computational simulations to examine the chemical reactions involved. The researchers caught an intermediate step in the process by which hydrogen is removed from tryptamine, namely the point at which a proton disappears from a carbon atom as the carbon-hydrogen bond breaks. They argue that this happens because the enzymes move in such a way that it becomes possible for protons to quantum tunnel. The work suggests that the motion needed is relatively short-ranged, although other researchers are also looking at whether long-range movement that extends throughout the enzyme plays a role in catalysis through quantum tunnelling.

Much of the work that is being done in this area is hotly contested. Indeed, a related article in the same issue of *Science* by Stephen Benkovic and Sharon Hammes-Schiffer of Pennsylvania State University casts doubt on the findings, describing them as “at variance with other systems” and suggesting that there is more going on than was examined in the study. Nevertheless, the idea that protons as well as electrons can quantum tunnel is a striking one. And, as if that claim were not intriguing enough, the British researchers raise the possibility that short-range tunnelling in enzymes might be the result of evolutionary pressure. Whether this suggestion proves to be weirder than quantum mechanics itself remains to be seen.

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About sponsorship

Seamus Heaney

The boy is back

Apr 12th 2006
From The Economist print edition

Retna

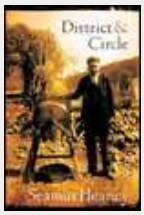
The Irish poet's new collection is his best for years

FORTY years ago a young Irish Catholic poet called Seamus Heaney, son of an Ulster farming family, brought out a slim collection of verse called “Death of a Naturalist”. That book was remarkable for the way in which it memorialised his childhood in County Derry in the 1940s through a sequence of poems that were dense, rich and fresh with the particulars of manual labour. The cycle of the turning year was described with loving care: blackberry-picking, turning hay, digging potatoes. And at the centre of that rural world was Mr Heaney's own, taciturn, farmer father, “coarse boot nestled on the lug” of his spade as he prepared to sink it into gravelly ground.

Mr Heaney's wish, as expressed in the first poem in that collection, was to do with his pen what his father did with the spade, day in day out—to delve with it, cleanly, thoroughly, deeply, with a kind of honest, shapely craftsmanship. If he could dig with his squat pen as his father and grandfather had dug with their spades and mattocks, that would be quite sufficient.

In the intervening years, Mr Heaney's poetry has grown denser and much more wide-ranging. It has explored the world of myth and legend; it has engaged with the complexities of politics; it has included fine work in translation, such as a version of the Anglo-Saxon poem “Beowulf”, which brought new life to a dry classic that many believed should be owned, but not necessarily read.

District and Circle
By Seamus Heaney



Faber and Faber; 76 pages; £12.99. To be published in America by Farrar, Straus and Giroux on May 2nd

Buy it at
Amazon.com
Amazon.co.uk

Now, in his first collection for five years, Mr Heaney seems to have come full circle. His new book is larded with loving descriptions of machinery found on the farm of his childhood. The opening poem of the book, for example, is a tribute to the turnip-snedder “standing guard/on four braced greaves”. To sned means, amongst other things, to chop. That hearty recollection also marks a return to older preoccupations: tributes to fellow 20th-century poets, especially George Seferis, Constantine Cavafy and Pablo Neruda (“O my Pablo of earthlife”); a re-encounter with the ghost of his father and a slow, dense evocation of his own schooldays and schoolfriends.

Many of the poems are clearer, simpler and harder-edged than much of what he has written in the past 30 years. Fewer people will puzzle over his meanings in this book and come away partially frustrated. The poems often evoke the thinginess—the weight and the heft—of things. They marshal their forces with a deliberate slowness. Sometimes a poem can consist of a single sentence, the impact of which builds and gathers force in anticipation of its final line. A wonderful, 14-line poem called “A Shiver”, for example, is about preparing to swing a sledge-hammer at a wall. Mr Heaney has a very particular way with adjectives—he often clots them together, so that the

reader feels their dense and thickening presence. Bobby Breen's fireman's helmet, for example, is “Leather-trimmed, steel-ridged, hand-tooled,/hand-sewn,/Tipped with a little bud of beaten copper...”.

But this is by no means a backward-looking book. There is no reek of nostalgia about it, no sense that Mr Heaney is repeating himself. And it is made all the stronger by the fact that it is a book that embraces the recent past. The verses that begin “In an age of bare hands/and cast iron” reach a contemporary epiphany in the work that gives the book its title: the District and Circle lines are two tracks on the London Underground. When Mr Heaney speaks of being “hurtled forward,/Reflecting in a window mirror-backed/By blasted weeping rock-walls”, he evokes, not just magnificent feats of engineering, but also the bombs that exploded on the tube last July—and, of course, Dante's descent into the underworld. Similarly, when Mr Heaney, in a translation from the Roman poet Horace, writes that “Anything can happen, the tallest towers/Be overturned, those in high places daunted”, he has in mind not only the topless towers of Ilium, but also the towers of lower Manhattan.

This is one of those remarkable books of poetry which demonstrates, with particular suddenness and clarity, what poems of the finest quality are really good for. They re-energise the language, and by doing so, they serve to quicken the reader's soul.

District and Circle.
By Seamus Heaney.
Faber and Faber; 76 pages; £12.99. To be published in America by Farrar, Straus and Giroux on May 2nd

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About sponsorship

The way ahead for the Democrats

Get to the point

Apr 12th 2006
From The Economist print edition

JEROME ARMSTRONG and Markos Moulitsas Zúniga, two giants of the American liberal blogosphere, have written a punchy book on political tactics that may enjoy a second wind if the Democrats triumph in November. Mr Armstrong started MyDD.com and now advises Mark Warner, a former governor of Virginia and moderate Democratic presidential hopeful. Mr Moulitsas runs DailyKos.com, which receives up to 1m hits a day.

The authors cast themselves as outsiders fighting the Washington establishment, but they are hardly ideological purists. They spear the abortion-rights camp, environmentalists and Big Labour, accusing them of putting their own interests first. They also condemn the party's obsession with "swing states" rather than cultivating a national strategy that reaches out to all voters. Finally, they stress another lesson of 2004: Republicans ran advertisements that were more emotive, and their strategists used more sophisticated data and technology to reach all voters, including independents and Democrats. By contrast, Democrats focused only on their own base, saturating broadcast television rather than exploiting other media such as cable television and talk radio.

Drawing on this post mortem, the authors outline a package of tactics: send resources to Democrats throughout the country to force Republicans to spend money even in "red states"; target a broader array of voters; exploit the internet and talk radio to raise campaign money; build up a think-tank and media infrastructure to develop a "message machine"; above all, ignore the Washington consultants who refuse to let candidates run campaigns in innovative ways.

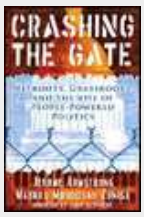
When it comes to ideas, Messrs Armstrong and Moulitsas preach flexibility over ideology. They point out that Democrats in Colorado, a swing state, bucked the GOP wave in 2004 by roping together a loose confederation of interest groups to reach as many voters as possible. Montana's Democratic governor Brian Schweitzer scored an upset in a much more conservative state that year by emphasising economic populism and his love of guns, and by distancing himself from traditional Democratic groups.

Such a big-tent approach avoids the hard question of what Democrats should believe in, other than promising cleaner governance. That said, an emphasis on anti-corruption and good governance, sharpened by smarter tactics, could translate into gains for Democrats, as it did after Watergate, in 1974 and 1976. But the Democrats will not turn into a national party that regains the White House in 2008 without an ideological compass—crucially on national security. That was the lesson of 1980, 1984, 1988 and 2004. John Kerry may have suffered from poor advisers, but he also could not articulate an Iraq policy that was different from George Bush's nor tear effectively into the Bush administration's record on the "war on terror". The failure was one of ideas, not tactics.

In effect, the book lays out how to give the Democrats a running start, not carry them to the finishing line. Yet if the Democrats make at least some gains this November, Messrs Armstrong and Moulitsas will have secured a victory of their own. Otherwise, it will be back to the blogs.

Crashing the Gate: Netroots, Grassroots, and the Rise of People-Powered Politics.
By Jerome Armstrong and Markos Moulitsas Zúniga.
Chelsea Green; 196 pages; $25

Crashing the Gate: Netroots, Grassroots, and the Rise of People-Powered Politics
By Jerome Armstrong and Markos Moulitsas Zúniga



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France during the second world war

Not a good time to be hungry

Apr 12th 2006
From The Economist print edition

TALES of heroic resistance fighters, such as Jean Moulin who was tortured to death by the Nazis in 1943, are emblematic of wartime France. But so too are the stories of un-heroic compromise and collaboration, which for some were the only real options. In an absorbing new book, Richard Vinen, a historian at King's College, London, who has made a speciality of Vichy France, focuses on the harsh times endured by ordinary French people, whether refugees on the road, captured soldiers, the huge numbers of men drafted to work in Germany or the women left behind scrabbling to feed their families.

By early 1942 most of France was hungry. What the German occupiers did not send home, they ate and drank on the spot, at one point taking 80% of the meat brought into Paris. Ernst Jünger, a German writer and officer who dined on the top floor of the sumptuous Tour d'Argent restaurant overlooking the Seine, wrote of the “diabolical satisfaction” of seeing the “grey ocean of roof tops under which the starving tried to keep body and soul together”.

The Unfree French: Life under the Occupation
By Richard Vinen

Penguin/Allen Lane; 478 pages; £25

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Food—or lack of it—became a national obsession. Mr Vinen describes the experience of 2,000 Parisians lining up to buy just 300 portions of rabbit. In the provinces, women started queuing at 3am for food, only to discover that there was none left in the shops. One daughter of a judge married a peasant farmer from the Loire, lured by his pork chops and rillettes. Parisian criminals masqueraded as German policemen to extort food, fuel and money from their fellow-citizens.

Most people resorted to black-market transactions with German soldiers, French collaborators or farmers—the countryside profiting at the expense of the city. The French population during the occupation was predominantly female. Close to 1.4m young Frenchmen had died in the first world war, 2m were taken back to Germany as prisoners of war in 1940 and a further 600,000 were forced to work there from 1942. Recent research suggests that German soldiers in France fathered as many as 200,000 children, mostly with waitresses, chambermaids and shop assistants—all of whom were likely to have come across Germans during the course of their daily work. These women suffered brutal punishment during *l'épuration*—the savage purges after the liberation, described by Mr Vinen in a chapter entitled “Sunset of Blood”. Their heads shaved, the women were spat at and marched down the streets by jeering crowds.

Mr Vinen examines in turn the fate of France's Jews. The most shameful act of collaboration—exceeding the demands of even the Germans themselves—was the deportation to Auschwitz of 4,000 Jewish children aged 12 or under, most of them rounded up by *gendarmes* under brutal conditions that must have proclaimed even to the dullest of bureaucratic minds what kind of a fate lay at the end of their journey.

The deportations ripped Jewish families apart. Seven-year-old Serge Klarsfeld, for example, hid in a cupboard with his mother while his father was arrested and sent to Auschwitz. An Austrian Jew entrusted his daughter to a French family only to discover on his return from a concentration camp that the child spoke only French—a language he did not understand.

Many Jews were also shown courageous support. Gentile students in Paris wore the yellow star; teachers forged papers for Jewish families, while Father Jacques, a Carmelite headmaster, hid three Jewish boys in his school, a story that later inspired a fellow pupil, Louis Malle, to make into a film. Sometimes whole French villages in remote areas protected Jews.

In her recent biography of Louis Darquier de Pellepoix, the one-time Vichy commissioner for Jewish affairs, Carmen Callil describes in close detail how France's most notorious anti-Semite helped round up and deport thousands of his own countrymen. What is remarkable, though, as Mr Vinen points out in this eminently balanced book, is that nearly 80% of the Jews in France survived the war. Hundreds of thousands of shopkeepers, postmen, priests and petty bureaucrats preferred turning a blind eye when there was a new face in town rather than alerting German authorities. Faint praise, perhaps, but this passive resistance helped save over a quarter of a million lives.

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By Richard Vinen.
Penguin/Allen Lane; 478 pages; £25

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English history

Ideal of chivalry

Apr 12th 2006
From The Economist print edition

IN JANUARY 1349, at the height of the Black Death, King Edward III gathered his court at Windsor. They were not, as might be supposed, in a protective huddle. They were there to joust, wear fantastic costumes, feast and womanise. In the course of the festivities Edward founded the Order of the Garter, which had at least something to do with the rivalry of two of his knights for the Fair Maid of Kent. Meanwhile the corpses of murrained cattle lay stinking in the fields, and in London alone 200 bodies a day were being shovelled into plague-pits.

This was typical of Edward. Given danger or difficulty, his first impulse was to dress up in his richest clothes and dance in the face of it, or mount his destrier and charge into the teeth of it. Either way, he would be acting like a king. His extraordinary boyhood—when, though nominally ruling, he was merely a pawn in the hands of his mother, Queen Isabella, and her lover Roger Mortimer—left him with a lifelong need to take control of events. If the Scots threatened him, he would burn Berwick to the ground. If the French poked him, as Philip VI most unwisely kept doing, he would claim the French throne, sail for Normandy, cross the Somme and obliterate the French aristocracy, at Crécy in 1346, under a blizzard of arrows.

The Perfect King: The Life of Edward III, Father of the English Nation
By Ian Mortimer

Jonathan Cape; 536 pages; £20

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Long reigns can be tedious. Edward's, from 1327 to 1377, often draws schoolboy yawns with its Statutes of Herring and Salt Fish (to name but two) and the interminable skirmishing, in various backwaters of Poitou and Aquitaine, that now goes by the grand name of the Hundred Years' War. Ian Mortimer's tense, terrific book avoids this difficulty by concentrating, as very few historians have done, not on the reign but on the man.

He offers up a king who was the very essence and epitome of chivalry, seeing himself as Arthur incarnate. Though many have dismissed Edward as a warmonger and philanderer, burdening England with taxes to pay for his impetuous or “absurd” campaigns, Mr Mortimer views him as a true builder of the nation, providing it with impressive castles, international status, a properly functioning Parliament (which usually supported him) and, not least, the red-and-white flag of St George blazoned on the king's armour and floating from his warships. At the same time his Edward is a near-Renaissance man, devising his own cannon, patronising Italian painters, organising his court on newfangled clock-time and enjoying, for the first time in England, hot and cold running water in his bathrooms.

Much in this book will fuel arguments. Mr Mortimer believes that Edward II, Edward's father, was not murdered in 1327 but survived well into his son's reign—and that Edward knew it, and that many of his actions and attitudes were conditioned by this knowledge. This theory, first advanced in Mr Mortimer's study of Roger Mortimer, “The Greatest Traitor”, is forcefully reprised here, with extra evidence for the sceptical. Even more controversial will be Mr Mortimer's excavations into Edward's emotions, hopes and fears. Such territory is usually ignored by scholars, as if medieval men and women—leaving so little trace of themselves—cannot be understood in human terms, and are merely cardboard actors on the stage of history.

Mr Mortimer offers, by contrast, a fascinating portrait. At times, the reader seems almost able to reach across time and touch the man. This Edward is conceited, brutal, pious, remorseful and romantic. He liked mysterious mottoes, which were sewn onto standards and hangings and clothes. One was “It is as it is”. Another was “Syker as ye Wodebynd” (A seeker like the woodbine). The first suggests his defiant, straightforward self; but the second hints at a man who was more complex, and possibly always dissatisfied.

In the end, Edward's reign seemed to fall apart in disaster after disaster. Eight of his children died before him, several of them of the plague. The first picture that Mr Mortimer paints of Edward as king, a mere boy at his coronation, portrays him as a lone figure in a sea of gold. The last picture shows him in gold again, this time wrapped in it, and nailed to his throne so that he will not topple over after a stroke. Once again, he seems helpless and alone. But between these two scenes, Edward had taken absolute control. And he had played to the hilt his own pageant, as England's ideal king.

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Russians

Sinned against, too

Apr 12th 2006
From The Economist print edition

LAST autumn, this reviewer travelled across the Russian far east, a mostly impoverished region which sends its taxes to Moscow and its sons to serve in the brutal federal army, and gets little in return. He half-expected to find that distance and resentment were weakening the bonds between the region's residents and their country. Nothing doing. For all they have suffered, far-easterners are umbilically attached to the motherland. Geoffrey Hosking's patiently compassionate account of the Russian experience of the Soviet Union explains how this mysterious, atavistic feeling both survived and was exploited by the Soviet Union's rulers.

Rulers and Victims: The Russians in the Soviet Union
By Geoffrey Hosking

Harvard University Press; 496 pages; $35 and £22.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Hosking—a distinguished Russian and Soviet scholar—analyses the evolution of the Soviet experiment from earlier forms of Russian imperialism. But he insists that it was an experiment conducted "not only *by* Russians, but also *on* Russians". It desolated the countryside, dehumanised cities and consigned hundreds of thousands of Russians to the gulag. Its arms-race obsession perverted its economy, so that, as Mr Hosking says, what was supposed to be "an egalitarian society based on abundance...became a hierarchical society based on scarcity". He combines a due sense of humility, when writing about the agonies of war and famine, with a fine ear for a vignette—such as the tale of the workers of Novocherkassk, who in 1962 protested against falling wages and rising prices with placards proclaiming "Cut up Khrushchev for sausages!" They were put down by troops and tanks.

The depredations were not only material. In other countries, "Russia" and the "Soviet Union" were treated as synonyms. Ukrainians, Georgians and the rest were subjected to periodic, energetic bouts of Russification. At the same time, every Soviet leader back to Lenin (who declared "war to the death on Great Russian chauvinism") was petrified of Russian nationalism. Mr Hosking dwells on the alternating use and abuse of the Russian Orthodox church, and the resistance and betrayals that this treatment provoked. And yet, nervous as the Politburo was, Russian nationalism and history were taken up and exploited when despondency threatened, especially before and during the second world war, and when the Soviet Union needed a narrative to compete with that of western democracy. This nervous tension was visible in culture, sport and, of course, in politics too, as Mr Hosking explores.

He is good on what Russia did to communism, as well as vice versa: how old pathologies—attitudes to law and to rulers—warped and undid the experiment. Russian "Messianism", the old conviction that Russia was and is a light unto the nations, is a leitmotif throughout the book. He makes unobtrusive reflections on the subtler legacies of the Soviet experience: the incivility bred by the civil war, and the habits and manners shaped by breakneck urbanisation.

But Mr Hosking's history ends shortly after Boris Yeltsin stood on his tank and the Soviet Union collapsed. He offers two possibilities for Russia's future: residual imperialism, and nation-statehood. Were Mr Hosking's book less compassionate than it is—or perhaps if he were to have finished it just a little later in the Putin imperium—he might have been less equivocal about the next direction those atavistic feelings are likely to take.

Rulers and Victims: The Russians in the Soviet Union.
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Harvard University Press; 496 pages; $35 and £22.95

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Flat feet on the West Bank

The travelling oasis of absurdity

Apr 12th 2006 | JENIN
From The Economist print edition

On the road with six clowns in Israel and Palestine

They should have tried this in Denmark

THE Jenin refugee compound, more than 50 years old and one of the oldest camps in Palestine, is home to 13,000 people, half of them under 15. It was the centre of some of the fiercest fighting during the second *intifada*, and even today many of its schools remain closed. When Israeli soldiers used to enter the camp, the children would automatically put down their schoolbooks and pick up stones.

Not knowing when the next military raid will burst upon them and with little opportunity to escape, Jenin's children have a far from stable upbringing. But over the past month one school playground has been been taken over by a carnival atmosphere. There are no advancing tanks, no explosions, no bloody deaths of local martyrs. Instead, from among a phalanx of laughing children, emerges a group of flat-footed clowns who have wandered, seemingly lost, into the cement and wire enclosure. A few minutes later the children are sitting quietly on the floor and the show can begin.

For more than an hour a loud, chaotic and colourful circus event rolls out mysterious card and water tricks, absurd clown skits, juggling of all varieties and a generous helping of good old slapstick comedy—the loudest laughs often coming, as they always do, when the low-status clowns ridicule the big-boss clown behind his back.

Volunteers are pulled out of the crowd to be a part of the performance and after uttering the immortal words “Chillybah Chillyboo!” they are amazed to see water disappear, cards pulled out of hats, magic wands extending above their heads and a real dart being thrown and caught in a clown's mouth. Even children as tough as these grow shy and tongue-tied on stage in front of their peers, but there is always that look of pride and a pure joy at being the one selected.

Boomchucka Circus, formerly Circus2Iraq, has been touring Israel and Palestine for two months. Originally from Britain, it is made up of six fools who answered an advertisement last November looking for performers to create a circus show for children living on both sides of the conflict.

For the children, the show is a new experience: a humorous, high-energy piece of foolish theatre that transcends the boundaries of culture, language, age and race. But there are lessons for the actors as well. The troupe operates as a collective, with each clown funding his own way. Riding on buses, eating handouts on the street and sleeping on floors, often in return for nothing more than the offer of a chance to learn a little sleight of hand, has given the six actors a clearer insight into the daily lives of the local people and the reality of trying to conduct a relatively normal existence within a war zone than any number of subscriptions to 24-hour television ever could. Perhaps the politicians should sign up for the tour.

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Correction: “Before the Next Attack”

Apr 12th 2006
From The Economist print edition

Our review of “Before the Next Attack” (March 25th) mis-stated some of Bruce Ackerman's arguments in favour of protecting civil liberties in America. The president would need the support of both Houses of Congress before enacting the proposed “emergency constitution”, rather than just the Senate, as stated in our review. We also said that the author “fails to draw clear lines around which civil liberties would remain inviolable”; in fact, he argued that any American citizen or resident alien detained under “reasonable suspicion” of terrorist activity would be guaranteed the right to a prompt hearing, a lawyer and protection against torture and abusive treatment. Our apologies to Professor Ackerman.

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Gene Pitney

Apr 12th 2006
From The Economist print edition

Pictoral Press

Gene Pitney, singer and songwriter, died on April 5th, aged 65

AGEING pop-singers are not meant to die. The waist thickens and the lush dark hair turns white; the tan grows more improbable, the trouser legs more short; yet the voice, given a bit of a run at them, can still reach those high notes, and the warbling now comes smoky with experience. There may be no hopes left of chart appearances, but an audience can still be found, climbing slowly out of the tour buses into one or another sherbet-coloured theatre in Branson, Missouri.

Gene Pitney never inhabited one of Branson's living mausoleums. Well past middle age he trod the boards in Europe, mostly in Britain, taking his ancient hits to the likes of Peterborough, Birmingham and Glasgow. He died unexpectedly in Cardiff, of heart disease, after another sell-out show.

Why Mr Pitney, an all-American boy, was so much more popular in Britain than in America is difficult to say. Sheer contrast had something to do with it. Mr Pitney hit the pop-music scene at the same glorious moment as the Beatles and the Rolling Stones; but where the Beatles were all Mersey jauntiness and the Stones strutting London rudeness, Mr Pitney offered the wailing of disappointed teenage love from a strange, distant land.

“Twenty Four Hours from Tulsa” (1963), his greatest hit in Britain, fell on ears that had no very clear idea where Tulsa was. As in “Wichita Lineman” and “Do you Know the Way to San José?”, half the song's drama came from its evocation of America as a land of highways, plains and (broken) dreams. The lyrics, too, painted a picture worthy of a James Dean movie, and sung like one.

> I saw a welcoming light
> And stopped to rest for the night
> And that is when I
> saw her
> As I pulled in outside of a small motel,
> She was there
> and so I walked up
> to her
> Asked where I could get something to eat
> and she showed me
> Where

Mr Pitney's appearance gave credibility to the poor traveller's tale. He was improbably clean-cut and besuited even for the time, with brooding brows and a pained, naive expression. You could well believe that he had been born in Hartford, Connecticut, the home of insurance, had studied electrical engineering and, in his spare time, had painstakingly trapped and stuffed racoons. He had also sung in the church choir. Clearly he was shy and good, and the world was hell to him.

But he was not as shy as all that. He was writing songs and singing them from an early age, and hawking them where he could. Some say he was spotted by an agent at a seminal concert by Gene and the Genials in Rockville, Connecticut, in 1959 or so. Others remember him going, with a greased-up pompadour and a bag of demo tapes, to knock on doors on Broadway, where Burt Bacharach and Hal David eventually adopted him. “Tulsa” was one of their songs, as was “Only Love can Break a Heart”, Mr Pitney's biggest hit in the United States. The combination of Mr David's dramatic words, Mr Bacharach's wistful melodies and Mr Pitney's tear-filled tremolos was powerful stuff.

Unlike a Rolling Stone

Asked to sum up Mr Pitney, critics found it difficult. His music ranged all over rock, pop and country, and merged them together. His voice, though pretty good, was also “heart-stopping”, “panic-stricken” or “like a kid pulling a wagon across a gravel road”. He was as famous for writing songs for others (“Rubber Ball” for Bobby Vee, “He's a Rebel” for the Crystals) as for recording them himself. His admirers credited him with large influence, from bringing Indian music to the notice of the Beatles, to encouraging Phil Spector towards his “Wall of Sound” period, to providing the model for David Bowie's odd sounds and manners as Ziggy Stardust.

He had some claim to have done all this. Most remarkably, he moved at the highest levels of the pop charts in the 1960s without melting down, by the end of the decade, in a blur of LSD and flowers. Mick Jagger, Keith Richards and Marianne Faithfull were his friends, and his recording of the Jagger/Richards song “That Girl Belongs to Yesterday” helped to get the Stones known in the States; but in that maelstrom Mr Pitney remained his small-town self. He provided some frenzied maracas for the Stones' cover of “Not Fade Away” and some company for Ms Faithfull, but (it was said) of a gentlemanly kind.

This was rather typical. Away from the stage he liked to fish, or just to look at water. As a teenager he would drive out of Rockville five miles to Walkers Reservoir, sit there for hours in his candy-apple red Ford coupé, and write songs. In later years he disappeared so frequently from the American scene that he was often assumed to be dead, or living as a recluse in the woods somewhere. In Glasgow, Peterborough and Cardiff they knew different: Mr Pitney's voice, one of the stranger instruments ever heard in pop music, swooping and aching through three octaves, was still ringing round them.

> Oh I was only 24 hours from Tulsa
> Ah, only one day away from your arms

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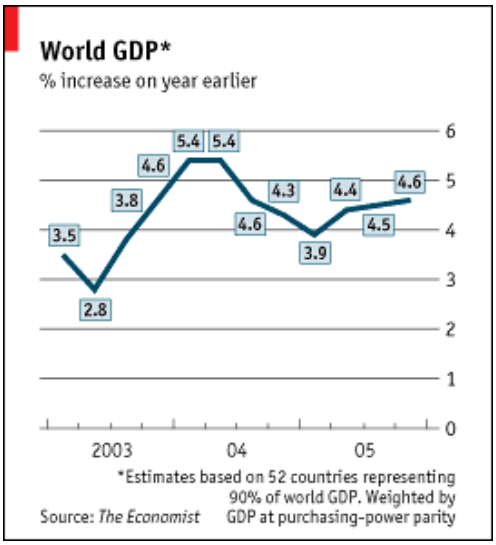
Overview

Apr 12th 2006
From The Economist print edition

The price of **gold** passed $600 per ounce, rising as far as $604, its highest since December 1980, before falling back a little. Black gold is also pricey: West Texas Intermediate crude oil topped $69 a barrel during trading this week.

Strong commodity prices (and indecisive politics) upset European **stockmarkets**—Germany's DAX, France's CAC-40 and Italy's MIB all fell—but the strong speculative demand for metals helped set another record on the Australian stockmarket, where mining companies are well represented.



Long-term **interest rates** continued to rise. The yield on 30-year American Treasury bonds rose above 5.0%; the yield on ten-year bonds almost did so.

The rise in interest rates was partly in response to strength in the American labour market. Businesses, other than farms, added 211,000 workers to their **payrolls** in March. Unemployment edged down a notch to 4.7%, leaving 7m people out of work.

France's industries stuttered in February. Industrial production contracted by 0.9%, leaving output 0.4% below the level reached a year earlier. Production in the car industry fell by 9.5% in the year to February.

Optimism in **Germany** may be peaking. The ZEW Indicator of Economic Sentiment, based on a survey of more than 300 analysts and institutional investors, fell a little in April, though it remains well above its historic average.

Japanese machinery orders, a leading indicator of business investment, rebounded in February. Core orders rose by 3.4%, recovering from a 6.2% drop the month before.

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Output, demand and jobs

Apr 12th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.7	Q4	+ 1.9	+ 3.1	+ 3.4	+ 0.6	Q4	+ 1.9	Q4	5.0	Mar	5.2
Austria	+ 2.1	Q4	+ 2.8	+ 2.2	+ 1.9	+ 8.2	Jan	+ 4.5	Jan	5.0	Mar	5.1
Belgium	+ 1.5	Q4	+ 2.6	+ 2.2	+ 1.8	+ 2.7	Jan	– 2.5	Jan	12.4	Feb†	12.7
Britain	+ 1.8	Q4	+ 2.3	+ 2.3	+ 2.4	– 1.4	Feb	+ 2.1	Feb	5.0	Jan‡	4.7
Canada	+ 2.9	Q4	+ 2.5	+ 3.1	+ 2.8	+ 0.9	Jan	+ 4.4	Jan	6.3	Mar	6.9
Denmark	+ 3.3	Q4	– 0.1	+ 2.8	+ 2.2	+ 7.1	Feb	+ 3.8	Feb	5.0	Feb	6.0
France	+ 1.5	Q4	+ 1.4	+ 2.0	+ 2.0	– 0.4	Feb	+ 1.7	Feb	9.6	Feb	10.1
Germany	+ 1.0	Q4	nil	+ 1.8	+ 1.2	+ 3.2	Jan	+ 1.1	Feb	11.4	Mar§	12.1
Italy	+ 0.5	Q4	+ 0.1	+ 1.2	+ 1.1	+ 3.4	Feb	+ 0.2	Jan	7.7	Dec	7.9
Japan	+ 4.0	Q4	+ 5.4	+ 3.0	+ 2.4	+ 3.7	Feb	– 0.7	Jan	4.1	Feb	4.6
Netherlands	+ 1.6	Q4	+ 3.2	+ 2.5	+ 1.9	+ 0.6	Feb	+ 7.4	Jan	6.1	Feb††	6.5
Spain	+ 3.5	Q4	+ 3.9	+ 3.1	+ 2.7	+ 2.3	Feb	+ 0.1	Feb	8.7	Feb	9.9
Sweden	+ 2.9	Q4	+ 2.6	+ 3.3	+ 2.8	+ 1.5	Feb	+ 7.7	Feb	5.6	Feb†	5.7
Switzerland	+ 2.7	Q4	+ 2.1	+ 2.3	+ 1.7	+ 3.9	Q4	+ 3.1	Jan	3.6	Mar†	3.9
United States	+ 3.2	Q4	+ 1.7	+ 3.3	+ 2.8	+ 3.3	Feb	+ 5.1	Feb	4.7	Mar	5.1
Euro area	+ 1.7	Q4	+ 1.0	+ 2.1	+ 1.7	+ 2.5	Jan	+ 1.0	Feb	8.2	Feb	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.9	Q4	+ 3.7	na	na	+ 3.5	Feb	+ 5.8	Jan	8.1	Feb	9.0
Greece	+ 3.7	Q4	na	na	na	+ 1.5	Jan	+ 0.5	Jan	9.7	Q4	10.4
Iceland	+ 3.6	Q4	na	na	na	na		na		1.6	Jan†	3.0
Ireland	+ 5.7	Q4	+ 7.6	na	na	– 5.2	Feb	+ 9.0	Jan	4.5	Mar	4.4
Luxembourg	+ 3.1	Q1	na	na	na	+12.7	Jan	+ 9.1	Feb	4.7	Feb	4.4
New Zealand	+ 1.9	Q4	nil	na	na	– 2.9	Q4	+ 3.0	Q4	3.6	Q4	3.6
Norway	+ 2.5	Q4	+ 1.0	na	na	+ 0.5	Feb	+ 2.8	Feb	4.2	Jan**	4.5
Portugal	+ 0.7	Q4	+ 0.4	na	na	– 1.5	Feb	+ 3.0	Feb	8.0	Q4†	7.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Nov-Jan; claimant count rate 2.9% in Feb. §EU harmonised rate 8.9% in Feb. ††Dec-Feb. **Nov-Jan.

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Prices and wages

Apr 12th 2006
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2006	The Economist poll consumer prices forecast 2007	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.8	Q4	+ 2.6	+ 2.8	+ 2.7	+ 4.8	Q4	+ 8.2	+ 5.3	Q4	+ 2.9
Austria	+ 1.2	Feb	+ 3.2	+ 1.9	+ 1.8	+ 1.9	Mar	+ 4.0	+ 2.7	Feb	+ 2.1
Belgium	+ 1.7	Mar	+ 3.1	+ 2.1	+ 1.8	+ 3.7	Feb	+ 4.3	+ 2.3	Oct	+ 2.4
Britain	+ 2.0	Feb*	+ 1.6	+ 2.0	+ 1.9	+ 2.5	Mar	+ 2.9	+ 3.5	Jan†	+ 4.2
Canada	+ 2.2	Feb	+ 2.1	+ 2.1	+ 2.1	+ 0.6	Feb	+ 2.8	+ 0.6	Jan	+ 2.0
Denmark	+ 1.9	Mar	+ 1.4	+ 1.9	+ 2.0	+ 4.3	Feb	+ 3.5	+ 2.9	Q4	+ 2.9
France	+ 1.9	Feb	+ 1.6	+ 1.7	+ 1.5	+ 3.5	Feb	+ 3.1	+ 3.3	Q4	+ 3.0
Germany	+ 1.8	Mar	+ 1.8	+ 1.6	+ 2.3	+ 2.5	Mar	+ 3.3	+ 1.1	Jan	+ 1.1
Italy	+ 2.1	Mar	+ 1.9	+ 2.1	+ 1.9	+ 4.9	Feb	+ 4.7	+ 2.6	Feb	+ 3.4
Japan	+ 0.5	Feb	− 0.3	+ 0.4	+ 0.6	+ 2.9	Feb	+ 1.3	+ 0.4	Feb	+ 0.1
Netherlands	+ 1.0	Mar	+ 1.8	+ 1.6	+ 1.5	+ 5.6	Feb	+ 5.2	+ 1.7	Mar	+ 0.6
Spain	+ 3.9	Mar	+ 3.4	+ 3.5	+ 2.8	+ 6.3	Feb	+ 4.9	+ 2.5	Q4	+ 2.7
Sweden	+ 1.1	Mar	+ 0.1	+ 1.2	+ 1.8	+ 4.9	Feb	+ 2.8	+ 3.4	Dec	+ 2.0
Switzerland	+ 1.0	Mar	+ 1.4	+ 1.2	+ 1.2	+ 1.5	Feb	+ 1.7	+ 0.9	2004	+ 1.4
United States	+ 3.6	Feb	+ 3.0	+ 3.0	+ 2.3	+ 3.7	Feb	+ 4.5	+ 3.4	Mar	+ 2.6
Euro area	+ 2.2	Mar	+ 2.1	+ 2.0	+ 2.0	+ 5.4	Feb	+ 4.2	+ 2.4	Q4	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.9	Feb	+ 0.2	na	na	+ 5.3	Feb	+ 2.2	+ 3.5	Q4	+ 4.3
Greece	+ 3.3	Mar	+ 2.9	na	na	+ 8.9	Feb	+ 4.1	na		na
Iceland	+ 4.5	Mar	+ 4.7	na	na	+ 4.2	Mar	+ 7.0	+ 8.6	Feb	+ 6.7
Ireland	+ 3.3	Feb	+ 2.2	na	na	+ 3.3	Feb	− 0.4	+ 3.8	Q4	+ 4.6
Luxembourg	+ 3.0	Mar	+ 2.4	na	na	+ 3.3	Jan	+19.3	− 0.1	Dec	+ 0.8
New Zealand	+ 3.2	Q4	+ 2.7	na	na	+ 6.5	Q4	+ 3.4	+ 3.1	Q4	+ 2.5
Norway	+ 2.4	Mar	+ 1.0	na	na	+15.1	Mar	+17.5	+ 3.1	Q4	+ 3.9
Portugal	+ 2.8	Feb	+ 2.2	na	na	+ 5.9	Feb	+ 4.0	nil	Feb	− 1.5

*RPI inflation rate 2.4% in Feb. †Nov-Jan.

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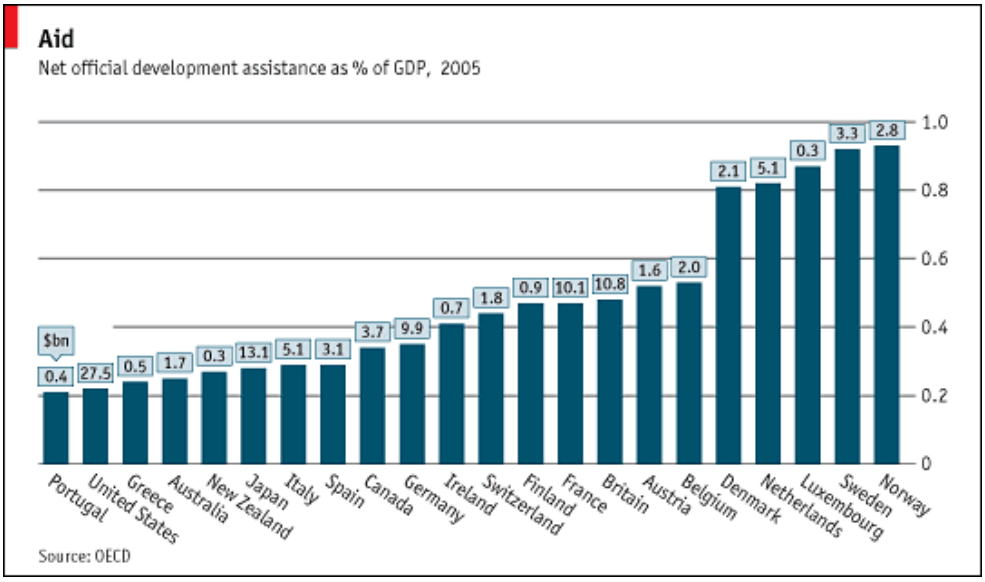
Aid

Apr 12th 2006
From The Economist print edition



Foreign aid, given by the 22 members of the OECD's development assistance committee, topped $100 billion for the first time in 2005. The aid figures were, however, flattered by debt relief of almost $23 billion (including nearly $14 billion for Iraq). It is harder to muster new resources for aid than it is to say goodbye to money already lent and lost.

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Money and interest rates

Apr 12th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 11th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 6.7	+ 7.5	Feb	5.67	5.74	5.54	5.58	5.49	6.61
Britain	+ 6.2	+12.2	Feb	4.58	4.81	4.45	4.44	4.66	5.12
Canada	+10.0	+ 6.4	Feb	3.95	2.48	4.13	4.40	4.27	5.46
Denmark	+20.2	+14.4	Feb	2.85	2.20	3.26	3.91	3.56	5.24
Japan	+ 5.5	+ 1.7	Feb	0.04	0.02	0.67	1.87	1.34	1.95
Sweden	+ 1.3	+ 8.8	Feb	2.05	1.98	2.95	3.75	3.58	3.63
Switzerland	+ 1.4	+ 3.8	Feb	1.27	0.76	1.68	2.55	2.17	2.45
United States	+ 0.4	+ 8.0	Feb	4.83	2.97	4.87	4.93	4.37	5.97
Euro area†	+ 9.9	+ 8.0	Feb	2.76	2.14	3.26	3.83	3.48	4.35

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.00%, Japan No. 278 1.88%. Central bank rates: US fed funds 4.75%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 12th 2006
From The Economist print edition

2000=100

	Apr 4th	Apr 10th*	% change on one month	% change on one year
Dollar index				
All items	158.5	161.6	+ 5.4	+20.0
Food	134.0	134.5	+ 0.5	+ 6.6
Industrials				
All	190.2	196.8	+10.1	+35.0
Nfa†	150.4	148.8	– 0.2	+14.8
Metals	211.8	223.0	+14.4	+44.1
Sterling index				
All items	136.9	140.6	+ 5.5	+29.8
Euro index				
All items	119.5	123.5	+ 4.6	+27.7
Yen index				
All items	172.8	177.5	+ 6.2	+31.2
Gold				
$ per oz	586.85	594.80	+ 8.6	+39.2
West Texas Intermediate				
$ per barrel	66.18	68.65	+ 9.2	+32.9

*Provisional. †Non-food agriculturals.

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Stockmarkets

Apr 12th 2006
From The Economist print edition

Market indices

	Apr 11th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,186.8	5,190.3	4,708.8	+ 1.4	- 0.1	+10.2	+10.1
Austria (ATX)	4,138.7	4,158.6	3,682.4	+ 0.2	- 0.5	+12.9	+16.0
Belgium (Bel 20)	3,850.6	3,978.0	3,573.9	- 1.6	- 3.2	+ 8.5	+11.5
Britain (FTSE 100)	6,016.5	6,067.0	5,618.8	+ 0.2	-13.2	+ 7.1	+ 9.0
Canada (Toronto Composite)	12,177.3	12,342.0	11,272.3	nil	- 1.0	+ 8.0	+10.3
Denmark (OMXCB)	375.1	395.5	362.0	- 4.1	- 5.1	+ 2.0	+ 4.8
France (SBF 250)	3,618.4	3,709.4	3,327.6	- 1.6	-17.6	+ 9.6	+12.7
(CAC 40)	5,112.6	5,255.3	4,748.3	- 1.8	-26.1	+ 8.4	+11.5
Germany (DAX)*	5,908.5	6,031.4	5,334.3	- 1.8	-26.7	+ 9.2	+12.3
Italy (S&P/MIB)	37,657.0	38,602.0	35,652.0	- 1.0	-24.8	+ 5.5	+ 8.4
Japan (Nikkei 225)	17,418.1	17,563.4	15,341.2	+ 0.7	-55.2	+ 8.1	+ 7.6
(Topix)	1,770.2	1,783.7	1,572.1	+ 1.2	-38.6	+ 7.3	+ 6.8
Netherlands (AEX)	464.1	472.6	431.5	- 0.8	-33.8	+ 6.3	+ 9.3
Spain (Madrid SE)	1,270.6	1,296.0	1,156.8	- 1.7	- 2.0	+ 9.9	+13.0
Sweden (Affarsvarlden Gen)	327.0	333.6	287.3	- 1.3	-18.3	+11.4	+15.3
Switzerland (Swiss Market)	8,029.1	8,109.3	7,583.9	- 0.3	- 4.6	+ 5.9	+ 7.4
United States (DJIA)	11,089.6	11,317.4	10,667.4	- 1.0	- 5.4	+ 3.5	+ 3.5
(S&P 500)	1,286.6	1,311.6	1,248.3	- 1.5	-15.8	+ 3.1	+ 3.1
(NASDAQ Comp)	2,310.4	2,361.2	2,205.3	- 1.5	-54.2	+ 4.8	+ 4.8
Europe (FTSEurofirst 300)†	1,367.3	1,383.2	1,277.1	- 0.5	-19.8	+ 7.2	+10.2
Euro area (FTSE Euro 100)†	1,167.1	1,193.1	1,078.9	- 1.5	-24.7	+ 7.2	+10.2
World (MSCI)‡	1,337.2	1,358.5	1,259.1	- 1.0	- 7.7	+ 6.3	+ 6.3
World bond market (Citigroup)††	615.1	638.9	613.5	- 0.9	- 3.7	- 0.8	- 0.8

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 12th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Apr 11th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Apr 11th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 12.8 Feb	− 42.1 Q4	− 5.5	− 5.0	117.2	116.4	1.36	1.29	2.38	1.65	1.15	+ 1.0
Austria	− 1.9 Jan	+ 0.5 Dec	+ 0.1	+ 0.1	104.8§	105.8	0.82	0.78	1.44	–	0.70	− 2.0
Belgium	+ 12.9 Jan	+ 6.6 Dec	+ 2.0	+ 2.1	106.4§	107.7	0.82	0.78	1.44	–	0.70	nil
Britain	−121.5 Feb	− 57.4 Q4	− 2.5	− 2.5	97.2	101.1	0.57	0.53	–	0.69	0.48	− 3.1
Canada	+ 57.8 Jan	+ 25.2 Q4	+ 2.2	+ 1.6	126.9	115.7	1.14	1.24	2.00	1.39	0.96	+ 1.3
Denmark	+ 9.4 Jan	+ 6.0 Feb	+ 2.7	+ 2.5	106.1	106.4	6.15	5.78	10.7	7.46	5.19	+ 2.8
France	− 30.3 Feb	− 39.7 Jan	− 1.6	− 1.3	107.1§	108.6	0.82	0.78	1.44	–	0.70	− 3.2
Germany	+195.8 Feb	+113.3 Feb	+ 3.9	+ 4.1	108.5§	110.2	0.82	0.78	1.44	–	0.70	− 3.9
Italy	− 14.6 Jan	− 26.5 Jan	− 1.5	− 1.4	106.7§	108.1	0.82	0.78	1.44	–	0.70	− 4.3
Japan	+ 89.0 Jan	+162.7 Jan	+ 3.7	+ 3.6	80.8	87.0	119	107	207	144	–	− 6.5
Netherlands	+ 39.0 Jan	+ 39.8 Q4	+ 5.7	+ 5.6	107.2**	108.5	0.82	0.78	1.44	–	0.70	− 1.6
Spain	− 97.6 Jan	− 85.5 Dec	− 7.3	− 7.4	105.2§	106.1	0.82	0.78	1.44	–	0.70	+ 0.3
Sweden	+ 19.2 Feb	+ 21.8 Q4	+ 6.5	+ 6.1	96.6	99.1	7.69	7.09	13.4	9.33	6.49	+ 1.2
Switzerland	+ 7.0 Feb	+ 50.2 Q4	+13.0	+12.3	105.3	107.2	1.30	1.20	2.27	1.58	1.10	− 1.6
United States	−792.6 Jan	−804.9 Q4	− 6.8	− 6.7	86.5	83.1	–	–	1.75	1.21	0.84	− 3.7
Euro area	+ 18.1 Jan	− 40.3 Jan	− 0.3	− 0.1	117.4	118.0	0.82	0.78	1.44	–	0.70	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 10.4 Jan	+ 5.3 Jan	na	na	107.9§	109.2	0.82	0.78	1.44	–	0.70	+ 2.1
Greece	− 34.5 Jan	− 18.1 Jan	na	na	104.1§	104.9	0.82	0.78	1.44	–	0.70	− 4.5
Iceland	− 1.6 Feb	− 2.6 Q4	na	na	106.2††	98.2	74.2	63.1	130	89.9	62.5	+ 2.0
Ireland	+ 39.6 Jan	− 3.9 Q4	na	na	112.1**	114.7	0.82	0.78	1.44	–	0.70	− 0.9
Luxembourg	− 4.9 Jan	+ 3.6 Q4	na	na	106.4§	107.7	0.82	0.78	1.44	–	0.70	− 2.3
New Zealand	− 5.0 Feb	− 9.6 Q4	na	na	123.0	137.4	1.64	1.38	2.87	1.99	1.38	+ 5.3
Norway	+ 50.6 Feb	+ 49.5 Q4	na	na	112.0	106.7	6.46	6.37	11.3	7.83	5.45	+ 15.3
Portugal	− 22.9 Jan	− 16.6 Jan	na	na	104.6††	104.3	0.82	0.78	1.44	–	0.70	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, February average. **IMF, January average. ‡OECD estimate. ††IMF, November average.

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About sponsorship

Top exporters

Apr 12th 2006
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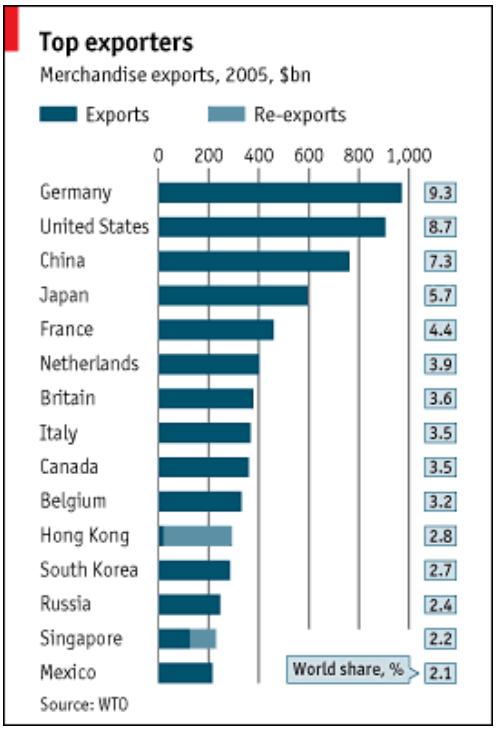

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Overview

Apr 12th 2006
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In **China** the 12-month trade surplus swelled to $108.1 billion in March. In **Russia** it rose to $128.1 billion in February. **India's** 12-month trade deficit edged up in March to $39.4 billion.

In **Turkey** industrial production bounced back, growing by 5.0% in the year to February. The 12-month current-account deficit increased to $24.7 billion in February.

The **Saudi stockmarket** fell by more than 14% in the week to April 11th. The collapse, which leaves the index 27% below its February peak, came on news that Saudi authorities are investigating speculators.

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The quality of living

Apr 12th 2006
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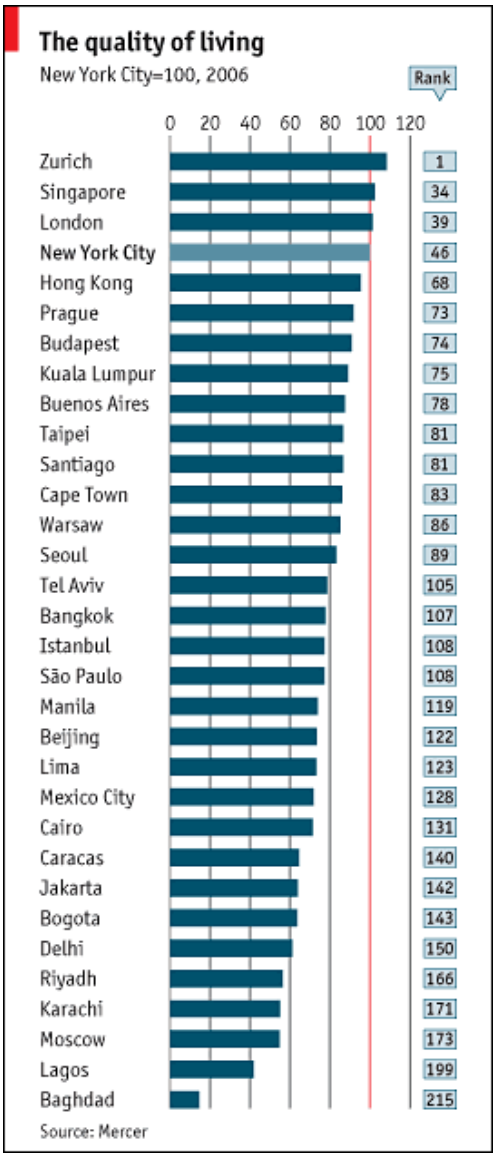
Zurich is the world's most pleasant city for expatriates, according to a survey by Mercer, a consulting company. The survey assesses cities on 39 criteria, ranging from traffic congestion to crime. In the parts of the world covered by our emerging-market indicators, Singapore is the best city in which to live. Not surprisingly, Baghdad is the lowest-ranking city in the survey.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+16.2	Feb	+ 0.9	Feb	+108.1	Mar	+128.5	H1	853.7	Feb
Hong Kong	+ 7.6	Q4	+ 5.9	Q4	+ 1.6	Feb	−11.3	Feb	+19.7	Q4	125.9	Mar
India	+ 7.6	Q4	+ 8.8	Feb	+ 4.4	Jan	−39.4	Mar	−13.3	Q4	136.6	Feb
Indonesia	+ 4.9	Q4	−15.4	Jan	+15.7	Mar	+29.8	Feb	+ 3.0	Q4	33.3	Jan
Malaysia	+ 5.2	Q4	+ 5.8	Feb	+ 3.2	Feb	+26.8	Feb	+19.9	Q4	71.6	Feb
Pakistan	+ 8.4	2005†	+19.3	Sep	+ 8.0	Feb	−10.1	Feb	− 3.7	Q4	9.8	Feb
Philippines	+ 6.1	Q4	− 2.8	Jan	+ 7.6	Mar	− 3.8	Jan	+ 2.4	Dec	18.0	Mar
Singapore	+ 9.1	Q1	+37.2	Feb	+ 1.2	Feb	+30.6	Feb	+33.2	Q4	122.2	Mar
South Korea	+ 5.3	Q4	+20.0	Feb	+ 2.0	Mar	+19.3	Feb	+11.1	Feb	217.3	Mar
Taiwan	+ 6.4	Q4	+14.1	Feb	+ 0.4	Mar	+ 8.9	Mar	+16.4	Q4	257.1	Mar
Thailand	+ 4.7	Q4	+12.8	Feb	+ 5.7	Mar	− 7.0	Feb	− 1.8	Feb	52.9	Feb
Argentina	+ 9.1	Q4	+ 8.6	Feb	+11.1	Mar	+11.3	Feb	+ 5.4	Q4	19.6	Feb
Brazil	+ 1.4	Q4	+ 5.4	Feb	+ 5.3	Mar	+45.8	Mar	+13.5	Feb	59.2	Mar
Chile	+ 5.8	Q4	+ 5.0	Feb	+ 4.0	Mar	+ 9.7	Feb	+ 0.7	Q4	16.0	Mar
Colombia	+ 3.7	Q4	+ 5.9	Jan	+ 4.1	Mar	+ 1.4	Jan	− 1.9	Q4	15.0	Mar
Mexico	+ 2.7	Q4	+ 6.0	Jan	+ 3.4	Mar	− 4.9	Feb	− 5.7	Q4	75.6	Feb
Peru	+ 4.4	Jan	+ 4.1	Jan	+ 2.5	Mar	+ 5.2	Feb	+ 1.0	Q4	13.4	Mar
Venezuela	+10.2	Q4	+13.6	Jan	+12.1	Mar	+31.5	Q4	+25.4	Q4	21.8	Jan
Egypt	+ 5.2	Q1§	+ 4.0	2005†	+ 4.0	Feb	−11.1	Q4	+ 1.8	Q3	21.3	Feb
Israel	+ 4.8	Q4	+ 8.4	Jan	+ 3.1	Feb	− 8.7	Feb	+ 2.4	Q4	28.0	Mar
Saudi Arabia	+ 6.5	2005‡	na		+ 1.5	Jan	+84.6	2004	+51.9	2004	23.2	Feb
South Africa	+ 4.5	Q4	+ 3.8	Feb	+ 3.9	Feb	− 4.7	Feb	−10.1	Q4	20.6	Mar
Czech Republic	+ 6.9	Q4	+11.8	Feb	+ 2.8	Feb	+ 1.7	Feb	− 2.6	Q4	29.4	Feb
Hungary	+ 4.3	Q4	+11.6	Feb	+ 2.3	Mar	− 3.3	Feb	− 8.0	Q4	21.5	Mar
Poland	+ 4.2	Q4	+10.1	Feb	+ 0.7	Feb	− 2.9	Jan	− 4.5	Jan	43.7	Feb
Russia	+ 7.0	Q4	+ 1.0	Feb	+10.6	Mar	+128.1	Feb	+84.3	Q1	205.9	Mar
Turkey	+ 9.5	Q4	+ 5.0	Feb	+ 8.2	Mar	−45.3	Feb	−24.7	Feb	56.5	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.1	Q4	+ 5.2	Feb	+ 4.6	Feb	− 2.6	Jan	− 1.3	Jan	1.9	Jan
Latvia	+10.5	Q4	+11.2	Jan	+ 6.1	Feb	− 3.0	Jan	− 2.0	Jan	2.3	Jan
Lithuania	+ 8.8	Q4	na		+ 3.4	Feb	− 3.8	Jan	− 1.9	Jan	4.0	Jan
Slovakia	+ 7.6	Q4	+ 7.7	Jan	+ 4.4	Feb	− 2.7	Jan	− 4.0	Dec	15.1	Jan
Slovenia	+ 5.1	Q4	+ 6.6	Jan	+ 1.9	Mar	− 1.7	Jan	− 0.2	Jan	8.1	Dec

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §2005

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Apr 12th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 11th		Dec 30th 2005	
	Apr 11th	year ago	Apr 11th	% a year		one week	in local currency	in $ terms
China	8.01	8.28	14.0	2.40	1,428.2	+2.4	+ 17.0	+ 17.9
Hong Kong	7.76	7.80	13.6	4.52	16,475.8	+2.3	+ 10.8	+ 10.7
India	44.8	43.7	78.3	5.75	11,662.6**	+0.2	+ 24.1	+ 24.6
Indonesia	8,993	9,483	15,710	13.60	1,360.1	+2.5	+ 17.0	+ 28.0
Malaysia	3.67	3.80	6.41	3.48	942.5**	+1.2	+ 4.7	+ 7.9
Pakistan	60.0	59.5	105	9.10	11,992.2**	+2.8	+ 25.5	+ 25.0
Philippines	51.2	54.1	89.5	7.50	2,217.4	+1.1	+ 5.8	+ 9.5
Singapore	1.62	1.64	2.82	3.43	2,554.7	+0.9	+ 8.8	+ 12.0
South Korea	955	1,012	1,668	4.30	1,386.1	nil	+ 0.5	+ 6.4
Taiwan	32.4	31.4	56.7	1.70	6,757.2	+1.4	+ 3.2	+ 4.5
Thailand	38.0	39.5	66.4	5.10	757.4	+1.6	+ 6.1	+ 14.4
Argentina	3.08	2.88	5.38	9.94	1,838.4	+1.0	+ 19.1	+ 17.1
Brazil	2.14	2.56	3.74	16.45	37,901.0	−2.3	+ 13.3	+ 23.4
Chile	516	572	901	4.68	9,827.9	−1.2	+ 6.8	+ 6.0
Colombia	2,338	2,329	4,084	5.93	10,873.9	−3.6	+ 14.3	+ 11.8
Mexico	11.1	11.1	19.3	7.22	19,465.2	−1.5	+ 9.3	+ 5.2
Peru	3.37	3.26	5.88	4.69	6,218.4	+4.1	+ 29.5	+ 32.0
Venezuela	2,519§	2,755§	4,400	10.18	30,786.6	−2.3	+ 51.0	+ 55.0
Egypt	5.75	5.80	10.04	8.56	59,723.9	+2.5	+ 7.9	+ 7.7
Israel	4.59	4.38	8.02	5.28	869.9	+1.4	+ 5.1	+ 5.4
Saudi Arabia	3.75	3.75	6.55	5.04	15,130.8	−14.4	− 9.5	− 9.5
South Africa	6.11	6.12	10.7	7.15	20,865.3	+1.1	+ 15.3	+ 19.7
Czech Republic	23.6	23.1	41.1	2.09	1,518.1	−1.1	+ 3.1	+ 7.8
Hungary	218	191	381	6.29	23,773.7	+3.5	+ 14.4	+ 12.2
Poland	3.24	3.16	5.66	4.15	41,446.3	+1.3	+ 16.4	+ 17.0
Russia	27.7	27.8	48.4	12.00	1,553.7‡	+6.7	+ 33.0	+ 38.0
Turkey	1.34	1.34	2.35	14.13	42,890.3	−2.7	+ 7.8	+ 8.5
EM (MSCI)*	1.00	1.00	1.75	na	807.7	−0.1	+ 14.3	+ 14.3
EMBI+†	1.00	1.00	1.75	na	371.2	−0.9	+ 0.7	+ 0.7

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **April 10th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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